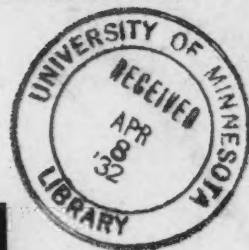


# ***AMERICAN BANKERS***

*Association*

# ***JOURNAL***



**APRIL 1932**

**TWO MONTHS OF THE RECONSTRUCTIVE PROCESS**

**TAXATION • COUNTRY BANK PROBLEMS • MUNICIPAL FINANCE**

**A GROUP OF MEN THAT BANKERS SHOULD KNOW**

**PUBLISHED IN TWO SECTIONS • SECTION ONE**

# And after 25 years Georgia Marble chosen again by the Girard Trust Company, Philadelphia



OVER twenty-six years ago the officers of the Girard Trust Company and their architects, McKim, Mead & White agreed upon Georgia Marble as the best material for their bank building . . . And in 1930 when the exterior material for their new 30-story building was under consideration the officers of the Girard Trust Company and their architects, McKim, Mead & White again agreed upon Georgia Marble as the best material . . . This helps to substantiate our contention, that the clients and architects who know the most about Georgia Marble are the ones most likely to prefer it.

In the foreground the familiar *Girard Trust*, built a quarter of a century ago of Georgia Marble . . . just beyond, the new 30-story, all Georgia Marble, Girard Trust Company Building. The new building was completed and occupied November 2, 1931, less than one year after the marble contract was let. McKim, Mead & White are the architects for both buildings, and United Engineers & Constructors, Inc., the builders of the one just completed.

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# Behind the Bond News

ONE of the distinctly favorable signs in business is the indication in the last few weeks that the capital market is about to re-open. The signs of public receptivity to new issues, however, are not yet numerous enough to warrant extreme optimism. The market has been feeling its way cautiously, and bankers have been offering only small morsels of bonds that are unmistakably choice for fear of gorging the revived institutional and public appetite. But new bonds have been sold in recent weeks (on one day alone in March five new municipal issues were offered) and old bonds have won new friends. This development has been encouraging.

What has occurred in the bond market has contrasted sharply with the situation existing last fall directly after the suspension of gold payments by the Bank of England. In October, 1931, exactly \$45,000,000 of new and refunding domestic issues were publicly offered—a new low since our capital market assumed major importance—and for the rest of the year the situation improved but meagerly. Dealers could not attempt to find buyers for new issues when prices of outstanding bonds were crashing to absurdly low levels, offering yields so fantastic that those on new bonds could not hope to compete. The dealers became unwilling to undertake any marketing task.

But there has been some restoration of dealer confidence ever since the New York City \$100,000,000 six per cent serial notes met with so warm a public reception in January. In certain instances lately the bare mention of a prospective new offering by a house of issue has brought a dealer response more instantaneous than has been received in a half year. The formation of syndicates has been no less difficult, but recently the problem has been not who could be persuaded to take a portion of an offering for old times' sake but who, among the several applicants, could well be excluded. Two small issues have been placed privately because of important institutional buying. Lest too enthusiastic a construction be placed on these developments within the market it would be well to restate the fact that offerings have been small both in size and number, and bankers have been leaning over backward to affix prices on new issues which instantly recommend themselves as attractive.

THE figures on new capital issues last year and in the earlier part of the current year afford one clue as to why business has fallen so low. The volume of long term issues floated in this market last year was but 48.7 per cent of the \$3,799,000,000 average of the previous four years. But not all of this drastic decline in total can be accounted for by the unwillingness of potential borrowers to enter the market. On the contrary, the shocks given the

market by the Central European difficulties last summer and later the chain of unfortunate events beginning with the departure of Great Britain from the gold standard caused the necessitous postponement, but not the cancellation, of numerous plans to borrow,—plans which, if carried out, would have supplied a wide and varied demand for goods.

From the comparative figures on total issues for recent years one can gain a rough idea of how much financing is being held in abeyance until the market is ripe. For the nine-year period from 1923 to 1931 inclusive, the total new domestic and foreign issues publicly offered in this country (excluding refundings) averaged \$7,641,000,000 annually, according to Commercial and Financial Chronicle figures. Yet last year the total offerings were only \$3,093,000,000, or 40 per cent of the nine-year average. If last year's results are excluded and only the figures for the preceding eight years are considered, an annual average of \$8,209,000,000 is obtained, making the 1931 offerings but 37.6 per cent of normal.

Even if one puts the least favorable construction on the 1923-1930 average, maintaining that the record was established during a boom period the like of which probably will not soon be witnessed, the fact would remain that last year's total offerings were greatly subnormal and that a shortage was being built up which would press for satisfaction in coming years.



THE offerings of states and municipalities in this country of course have held up better than other classifications. In the nine-year period this class of offering varied from a low of \$1,043,000,000 in 1923 to a high of \$1,475,000,000 in 1927, while the 1931 figure was \$1,229,000,000; the yearly average was \$1,337,000,000. Corporate bond and note offerings, at \$1,239,000,000 in 1931, suffered a shrinkage of approximately 50 per cent from the nine-year average of \$2,351,000,000.

It is in the cases of corporate stock and foreign bond issues that one finds the most drastic fall in offerings. Stock issues last year came to \$311,000,000, compared with the nine-year average of \$1,766,000,000 and the total in 1929 of \$5,924,000,000. Foreign bond issues last year aggregated \$239,000,000, as against the nine-year average of \$888,222,000. In this drop in the amount of capital provided here for foreign borrowers is to be found the explanation not only for the fall in our export trade but also in the number of foreign bond defaults. Not one foreign issue has been offered publicly in this country since last November; in the last half of 1931 only \$34,000,000 worth of foreign obligations were sold, or at the rate of \$68,000,000 annually, equal to 7.6 per cent of the nine-year average.

While 1931 was the poorest year out of the last nine so far as total domestic and (CONTINUED ON PAGE 647)

# WHY THESE 34 STOCKS?

Deposited Stocks in Each Unit of 100,000

## NORTH AMERICAN TRUST SHARES, 1955

### MAXIMUM CUMULATION TYPE

(As of October 17, 1931)

<b>CHEMICAL 15%</b>	
E. I. duPont de Nemours & Company . . . . .	200
Eastman Kodak Company . . . . .	100
The Procter & Gamble Company . . . . .	100
Union Carbide & Carbon Corporation . . . . .	300
<b>ELECTRICAL EQUIPMENT 6%</b>	
General Electric Company . . . . .	400
Westinghouse Electric & Manufacturing Co. . . . .	100
<b>STEEL 3%</b>	
United States Steel Corporation . . . . .	100
<b>FOOD 11%</b>	
The Borden Company . . . . .	200
Corn Products Refining Company . . . . .	100
General Foods Corporation . . . . .	100
National Biscuit Company . . . . .	200
Standard Brands Incorporated . . . . .	200
<b>RETAIL MERCHANDISING 9%</b>	
Drug Incorporated . . . . .	100
Sears, Roebuck & Co. . . . .	200
F. W. Woolworth Co. . . . .	200
<b>MACHINERY 6%</b>	
American Can Company . . . . .	100
American Radiator & Standard Sanitary Corp. . . . .	300
Otis Elevator Company . . . . .	200
<b>FARM MACHINERY 1%</b>	
International Harvester Company . . . . .	100
<b>TOBACCO 6%</b>	
The American Tobacco Company "B" . . . . .	100
R. J. Reynolds Tobacco Company "B" . . . . .	200
<b>AUTOMOBILE 2%</b>	
General Motors Corporation . . . . .	200
<b>PETROLEUM 4%</b>	
Standard Oil Company (New Jersey) . . . . .	300
<b>RAILROADS 12%</b>	
The Atchison, Topeka & Santa Fe Railway Co. . . . .	100
The New York Central Railroad Company . . . . .	100
The Pennsylvania Railroad Company . . . . .	100
Union Pacific Railroad Company . . . . .	100
<b>UTILITIES 25%</b>	
American Telephone & Telegraph Company . . . . .	100
Columbia Gas & Electric Corporation . . . . .	400
Consolidated Gas Company of New York . . . . .	200
The North American Company . . . . .	200
Pacific Gas & Electric Company . . . . .	200
Public Service Corporation of New Jersey . . . . .	100
The United Gas Improvement Company . . . . .	300

As of October 17, 1931, the date of execution of the Trust Agreement, a stock unit consisted of the shares listed above. Percentages (approximate) of total investment by industries are based on market prices of that date.

The deposited stocks in each unit of 4,000 NORTH AMERICAN TRUST SHARES, 1956 (Maximum Distribution Type) consisted on October 17, 1931, of 1/25th of the number of shares of the common stocks listed above.

Holders of NORTH AMERICAN TRUST SHARES (Original Issue) who have not been informed concerning an offer, which authorized dealers are making, to exchange their shares on a preferential basis for shares of two new trusts, NORTH AMERICAN TRUST SHARES, 1955 and 1956, may obtain complete information from any authorized dealer.

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TRUST SHARES**

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How should the investor in common stocks apportion his money today for long-term participation in the earnings of American industry? It is not wise to risk all his capital in one or a few stocks. Should he, however, rely for diversification on a group of stocks chosen merely because they are "high grade?"

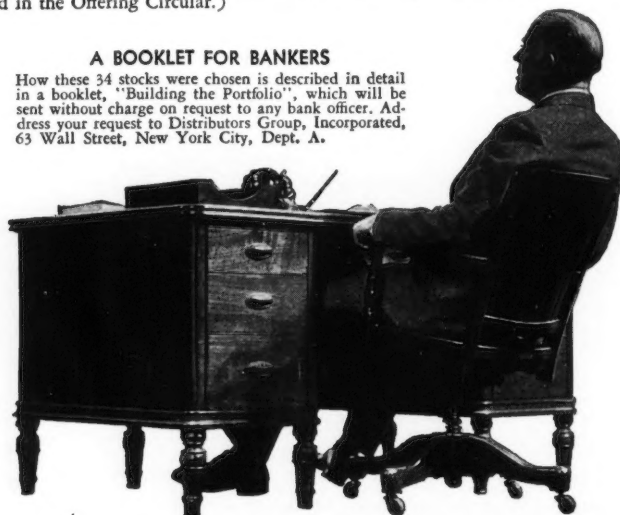
The individual high quality of the 34 common stocks in the portfolio of NORTH AMERICAN TRUST SHARES, 1955 and 1956, was only one of the factors that influenced their selection. Each stock was chosen because it fitted logically into an investment plan, constructed after months of painstaking research, and based on a scientific principle of investment selection evolved to balance the apportionment of capital invested under present conditions.

These trust shares give the investor not only an investment but a plan which provides: (1) Balanced dollar diversification; (2) Maintenance of investment quality under the direction of a Research Department; (3) No substitution; (4) The convenience and safety of trust administration provided by a large bank acting as Trustee; (5) Marketability. The 34 stocks comprising the portfolio of NORTH AMERICAN TRUST SHARES, 1955 and 1956, a new type of fixed investment trust, are all listed on the New York Stock Exchange. More than 1600 investment houses and banks are now recommending these shares.

The offering price of NORTH AMERICAN TRUST SHARES is based upon and varies with the actual New York Stock Exchange 100-share lot transaction prices of the underlying stocks during market hours. (Complete details of the method of calculating this offering price are contained in the Offering Circular.)

### A BOOKLET FOR BANKERS

How these 34 stocks were chosen is described in detail in a booklet, "Building the Portfolio", which will be sent without charge on request to any bank officer. Address your request to Distributors Group, Incorporated, 63 Wall Street, New York City, Dept. A.





## GENERAL

FEB.

- 27 Dr. E. W. Kemmerer, Princeton professor and widely famed "currency doctor", tells the American Institute of Banking that the world will ultimately come back to the gold standard. Bankers believe that the run on the dollar is at an end, with foreign exchanges, recently at or above the gold export point, returned to parity.

MARCH

- 9 W. A. Irvin elected president of the United States Steel Corporation, to succeed James A. Farrell, retired. First of a large number of reductions expected in savings bank interest rates in New York City, several announcing reductions to  $3\frac{1}{2}$  per cent.

## WASHINGTON

FEB.

- 26 President signs Glass-Steagall Bill liberalizing Federal Reserve Act; praises cooperation between two parties in expediting measure.

MARCH

- 1 Sales tax accepted by the Administration. Ogden L. Mills, Secretary of the Treasury, says he will cooperate on proposed bill of House Ways and Means Committee, though it calls for a change in the Treasury proposals at nearly every point; feature of bill is manufacturer's sales tax, to apply to everything but the "poor man's breakfast table and daily newspaper", and the farmer's products, his magazines, and his periodicals. Senate Banking and Currency Committee recommends broad inquiry into New York Stock Ex-

change; Senator Walcott of Connecticut heads subcommittee charged with drafting resolution.

- 3 Tax bill amended in respect to capital losses. Latter will be limited to amount of profits established in same year; this modification expected to yield an additional \$100,000,000 in revenue. Senate Banking and Currency Committee asks \$50,000 appropriation for proposed stock exchange inquiry; latter, according to Senator Walcott, will include exchanges generally, not merely the New York Exchange. House passes Norbeck resolution for free distribution of 40,000,000 bushels of Farm Board wheat—first direct Federal relief voted at present session of Congress.

- 4 Senate authorizes inquiry into the exchanges. New tax measure almost ready rate of  $2\frac{1}{4}$  per cent agreed upon for sales tax.

- 5 Tax measure completed. Designed to raise \$1,096,000,000 additional revenue for the fiscal year 1933; would balance the budget a year from June, income, corporation, estate and gift taxes to be effective "until revoked", with excise and sales taxes expiring June 30, 1934. None of levies to be retroactive.

- 7 House gets emergency tax bill. Sponsors hope it will be enacted in a week's time. Constitutional amendment empowering Congress to "stabilize prices in time of war and eliminate profiteering" recommended- (CONTINUED ON PAGE VIII)



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ed in report of War Policies Commission transmitted to Congress by President Hoover. Representative Steagall of Alabama, chairman of the Banking and Currency Committee and co-author of the Glass-Steagall Bill, introduces measure for creation of \$517,000,000 fund for "guarantee of deposits" in Federal Reserve member banks. Fund to be raised through (1) transfer of franchise tax from Treasury, (2) recapture of part of Federal Reserve surpluses, and (3) assessments against member banks.

- 9 Re-writing of Glass Bill delays inquiry into exchanges by Senate Banking and Currency Committee.
- 10 Group of Senators opens attack on emergency tax measure; Senator Moses of New Hampshire charges them with seeking to embarrass Speaker Garner, widely mentioned as Presidential candidate.
- 12 Secretary Mills, in radio appeal, expresses his approval of proposed tax measure.
- 15 Senator Hiram Johnson of California charges that in distributing billions of foreign bonds here during the past ten years American bankers "betrayed the investing public."

### TREASURY AND RECONSTRUCTION MARCH

- 2 Eight months' deficit of Treasury \$1,781,017,400 on March 1, indicating record peace time deficit for year of \$2,500,000,000.
- 3 Reserve System's statement shows it has been making use of Glass-Steagall provisions liberalizing banking law to increase open market operations; purchased over \$19,000,000 Government securities in week ended March 2.
- 6 President Hoover formally opens campaign for sale of anti-hoarding bonds; calls upon nation, in radio broadcast, to put its savings back to work.
- 10 Treasury offering is subscribed 3½ times. Mr. Mills announces that hoarding has shown declines in five consecutive weeks.

- 15** Income tax day; early returns indicate shrinkage of 20 per cent from a year ago.

# INDUSTRY, FINANCE AND MARKETS FEB.

- 24** President Richard Whitney of the New York Stock Exchange denounces proposals to curb short selling; testifying before Senate Committee, he declares that without a two-sided market the Exchange would have been forced to close months ago. Federal Reserve Bank of New York reduces rediscount rate to 3 per cent in war on deflation.
- 26** New York Bank follows up action on rediscount rate by cutting buying rate on acceptances. J. W. Pole, Comptroller of the Currency, announces there have been no national bank failures in 8 days, a record performance for many months.
- 27** Henry Ford announces plans for going into production on his new V-8 and improved model A four-cylinder cars.
- 29** New financing in February falls to \$66,744,000. Last month was the fifth in which there has not been an industrial offering and the third in which there has not been an issue of railroad securities.

## FOREIGN

### FEB.

- 28** French banking policy on gold is unchanged, say Paris dispatches; although there is no mistrust of the dollar that country is determined, it is reported, to continue withdrawals at least of its earmarked metal.

### MARCH

- 8** Reichsbank reduces discount rate from 7 to 6 per cent, the lowest rate since the crisis of 1931. Pound sterling rises 20 cents in most spectacular flight since suspension of the gold standard last September; move regarded as culmination of speculative buying which began with announcement two weeks ago of Great Britain's plan for paying \$150,000,000 of Treasury debt to this country in advance of maturity.



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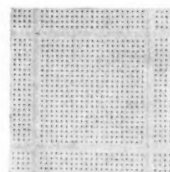
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# *AMERICAN BANKERS* Association *JOURNAL*

APRIL 1932

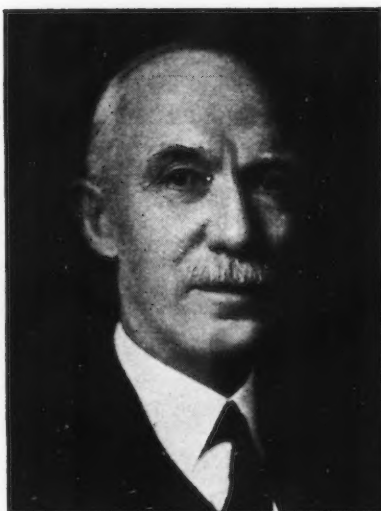
## The Reserve Board's New Power Can Be Handled with Care

By EDMUND PLATT

**T**HE first two sections of the Glass-Steagall Act, approved by President Hoover on February 27, have been roughly and somewhat inaccurately described as providing for what are generally known as Lombard loans. Both were designed to provide currency in emergencies, and the first section somewhat resembles the Vreeland-Aldrich Act of 1908, which in modified form was a part of the Federal Reserve Act until June 13, 1915. Groups of banks are substituted for "national currency associations" and they are to borrow from the Federal Reserve Bank "upon their time or demand promissory notes" at a rate "not less than 1 per centum above the discount rate in effect at the time of making such advance."

Such loans can hardly be called Lombard loans, for they are made to the group, and the group is to distribute the proceeds to such of its members as have need of the funds secured by collateral not lodged with the Federal Reserve Bank but "with a suitable trustee representing the entire group." It is the group apparently that is to be satisfied as to the adequacy of the security to be deposited by one or more of its members needing funds, rather than the Federal Reserve Bank.

This section might easily be invoked by clearinghouses or by groups organized under the National Credit Corporation, but seems unlikely to be much used by banks not so organized.



Should the Glass-Steagall Act be made permanent law? Edmund Platt, former vice-governor of the Federal Reserve Board, traces the evolution of the Reserve System through various amendments aimed to increase its usefulness to the nation. Mr. Platt is now vice-president of the Marine Midland Corporation. During the first eight years of the System's existence he was one of New York's Congressmen and served as chairman of the Committee on Banking and Currency of the 66th Congress.

This section is permanent law, but the two following sections are limited to March 3, 1933. Loans to individual banks, with capital not above \$5,000,000, under the second section may be called Lombard loans, depending however on the classes of assets the Federal Reserve Board may define as acceptable. If the collateral can be narrowed to include only such securities as are accepted by the Treasury Department as collateral for War Loan deposits I see no reason why this section should not be made permanent law. It would then provide for straight Lombard loans "in exceptional and exigent circumstances."

The third section if made permanent law would be a long step towards a straight asset currency and would very greatly change the structure of the Federal Reserve Act, so far as currency is concerned. Most of the explanations of this section and its relations to so-called "free gold" have been a little too simple, and it cannot be fully explained without going into the history of the development of the Reserve Act through successive amendments.

The framers of the Act proceeded on the theory that the currency outstanding at the time of its enactment in 1913 was sufficient for all ordinary business purposes. It was inelastic—that was its chief defect as demonstrated in the panic of 1907. The amount of currency outstanding was pretty definitely limited by law, except as new discoveries or the

settlement of international balances might increase or decrease the amount of gold—but it had been sufficient except in emergencies, or at certain periods when there was seasonably an increased demand, as for the movement of the crops in the fall.

The Reserve Act supplied elasticity. Member banks were to rediscount their short term customers' notes with the Reserve banks in order to obtain additional currency when needed, and the currency was expected to be returned to the member banks when the customers' notes matured and was expected to be used by them to pay the rediscounts at the Reserve banks.

It was beautifully simple—in theory—and the amount of Federal Reserve currency to be issued was limited to the amount of customers' notes held by the Federal Reserve Bank under rediscount and tendered to the Federal Reserve Agents. As originally passed the Act provided (Section 16) that "The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of section thirteen of this Act." Nothing else could be used as collateral—but a paragraph in Section 14 provided that Federal Reserve notes could be exchanged for "gold, gold coin, or gold certificates."

Gold so obtained, however, could not be counted as a part of the Reserve bank assets, or even as reserve against Federal Reserve notes in general—but was held by the Federal Reserve Agents as special collateral. As rediscounts were very small in the early days of the system it was difficult to get Federal Reserve notes into circulation, and difficult to bring additional gold into the Reserve banks.

The early reports of the Federal Reserve Board recommended amendments to permit the use of bankers acceptances purchased by the Federal Reserve banks as well as gold as collateral for Federal Reserve currency—the gold to go into the assets of the banks and become a part of their reserves. These amendments were passed by the Senate in the summer of 1916, and the section permitting the use of purchased bankers acceptances became law on September 7 of that year (also the amendment authorizing direct borrowing by member banks on their own 15-day notes secured by eligible paper or Government bonds), but the House under Mr. Glass's leadership rejected the gold amendment. In 1917, however, after we had entered the war, Mr. Glass yielded and the gold section became a part of

At the present time member banks have strongly evinced their desire to obtain currency by very large rediscounts at a time when there is a very small business demand for credit, and the third section of the Glass-Steagall Act will doubtless be used to relieve them of some of the pressure occasioned by these very large rediscounts; but it could be used to increase currency or credit when there was no such demand from member banks in evidence. It might be called a new "managed currency" weapon, and its careful management apparently depends almost wholly upon the Federal Reserve Board which cannot always be depended upon for conservatism.

the amendments of June 21 of that year.

These amendments have been called "war amendments," but they were recommended before the war and could



The authority and responsibility of the Federal Reserve Board under Governor Meyer, have been greatly augmented. Some changes may be permanent

more properly be called Warburg amendments, for Mr. Paul M. Warburg, then a member of the Federal Reserve Board, had advocated them from the beginning and was insistent at all times on their necessity—as a means of centralizing the gold holdings of the country in the Reserve banks and broadening their powers to meet any emergency. Certainly the war could not have been financed without them.

The bankers' acceptance amendment of September 1916 was the first definite departure from the theory of the Act, in that it permitted the issue of Federal Reserve currency not directly asked for by member banks through rediscounting. Acceptances are rarely rediscounted—the Reserve banks buy them in the open market, and in buying them they obtain collateral for further issues of Reserve notes, partly at least on their own initiative. The Reserve banks do not buy bills unless offered to them by banks or dealers, but they can generally cause bills to be offered to them by making the rates attractive.

United States securities, however, the Reserve banks generally buy on their own initiative—often for the purpose of easing the money market by putting additional reserve funds at the disposal of the member banks. In doing so, however, they obtained an asset that could not be used as collateral for currency—so that in effect U. S. securities were purchased with gold and decreased the "free gold," or surplus gold held by the Reserve banks above reserve requirements and collateral requirements.

The amendment of September 7, 1916 enabled Federal Reserve banks to buy bills or bankers acceptances with Federal Reserve notes; the amendment of June 21, 1917 enabled them to buy gold with Federal Reserve notes and carry the gold as a part of their reserves, at the same time counting it as collateral for the Reserve notes outstanding beyond the total of rediscounted commercial paper and purchased bills; the amendment of February 27, 1932 enables the Reserve banks to buy Government securities with Federal Reserve notes, with only the limit of the 40 per cent gold reserve.

As an emergency measure this is in my opinion not objectionable. The currency is not in any true sense bond secured. The Reserve banks, with holdings of U. S. Government securities of 760 millions (March 2) can at any time increase their holdings of eligible paper, now 828 millions, by selling Governments, thus (CONTINUED ON PAGE 664)

# And Now We Must Face Facts about Taxes

## The Joyride of the Last Decade Is Over

By MELVIN A. TRAYLOR

**B**EFORE the individual, the corporation, industry, commerce, or any of the other activities that make up the economic structure of this great country can earn one dollar for those interested, they must contribute approximately \$33,000,000 per day for each working day in the year for the support of the state and local governments, and approximately \$13,000,000 per day in addition for the support of the Federal Government.

Translated another way and based upon the estimated total annual income of \$70,000,000,000 for the United States from all sources for 1930, approximately 20 cents out of each dollar, or \$14,000,000,000 of this total annual income, is required solely to carry on the machinery of our multiple governing bodies; and further, the tax bill is approximately \$110 annually for every man, woman and child in the United States proper.

Compare this tax bill of \$14,000,000,000 with certain major items in our national income. It exceeds by \$2,000,000,000 the gross farm value of all agricultural production—crops and live stock—in the United States in 1929. It is only seven per cent less than the total salaries and wages paid in 1929 to 10,178,000 officers and employees of over 210,000 manufacturing establishments in the United States.

What brought about this condition, and who is responsible? The condition exists, I think, in a large measure because we, the people, permitted it, and we, the people, are responsible; for after all, government in this land of ours, whatever else we may say about it, is by and large the shadow of public will, and the tax burden of today is

largely the result of public demand. We have called upon our governments for this service and that, for this luxury and the other—not counting the cost and ignoring our ability to pay, until now it is perfectly evident that during the joyride of the last decade our Pegasus of government has thrown a shoe and has gone exceedingly lame.

I believe we shall discover that the question of taxation, aside from the question of revenue for the payment of existing debts, is primarily one of reducing future expenditures. This objective will not be accomplished unless there is a drastic change in the public attitude toward Government responsibility. In other words, we cannot continue to demand of our governmental agencies that they perform the increasing number of things we have been requiring of them in the past—things we should do ourselves, and at the same time expect those responsible for gov-

**Today tax levies equal the estimated equivalent of one day's labor every week for every man, woman and child in the United States. Only a short time ago one out of every 22 persons gainfully employed was on the public payroll; today it is one in every 11; and it is said that at the present rate we shall have, in only a little over 20 years, one person on the public payroll for every individual paying taxes.**



MR. TRAYLOR

ernment to reduce the cost of its administration.

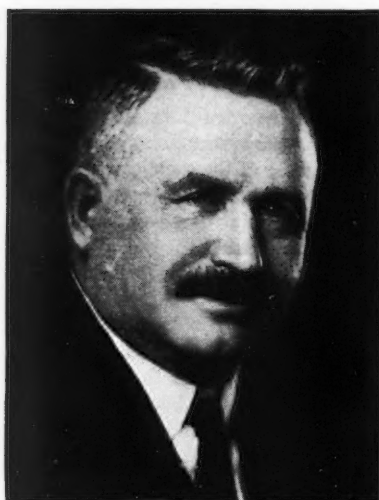
The tendency of the states to request or permit the assumption by the Federal Government of the exercise of functions which should be forever sacred to the states is alarming in the extreme and has already resulted in the building-up of a bureaucracy in Washington at once expensive and inefficient, and calculated in the end to rob the states of the sovereignty which the founders of our Government intended they should forever maintain. In a large way this tendency cannot be laid at the door of Congress, but is directly traceable to the abject surrender by state administrations of those rights and duties which they should maintain but which they,—and sadder still to relate, the people,—shamelessly implore the Federal Administration to assume.

The seductive fallacy of Federal aid seems to dull the senses and lull to sleep the pride in local self-government and the joy of independence which characterized our forefathers, and unless we are willing to surrender to Federal bureaucracy the independence of thought and action with which we have governed ourselves for a century and a half, we, the citizens of the states, must reverse our course and re-dedicate our efforts to the resurrection of our self-respect and new confidence in our ability and determination to manage our own affairs.

In the meantime, however, almost every governing body from the humblest school district to Congress finds itself faced with the dire necessity of increasing revenue to meet treasury deficits and to pre- (CONTINUED ON PAGE 648)



REPRESENTATIVE H. B. STEAGALL



SENATOR PETER NORBECK



SENATOR DUNCAN U. FLETCHER

# A Group of Men We Should Know

## The Two Banking Committees Are a Cross-Section of America

**W**ITHIN the next few weeks or months, perhaps years, the banking laws of the United States are to be given more of an overhauling than they have had probably since the passage of the National Bank Act in Civil War days, certainly since the passage of the Federal Reserve Act. Prophecy in such a matter is dangerous. So much can happen in a few days, as is evidenced by the passage of the Reconstruction Finance Act, that it cannot be predicted how long the overhauling process will require.

On the other hand, the Committee on Banking and Currency in the House of Representatives has had the matter in hand for upward of two years. The sole result is the bill of Representative Henry B. Steagall of Alabama, Chairman of the Committee, to guarantee deposits in member banks in the Federal Reserve System. The long heralded bill of Senator Carter Glass, of Virginia, to revise the Federal Reserve Act was introduced after more than a year of investigation and was withdrawn for revision within a week. As revised it travels a thorny path through Congress, if, indeed, it travels at all. Yet the Glass bill, fortified by much technical advice, is the only measure before the two Houses of Congress which even pretends to have a scientific basis.

The fact is that none of the measures attempts real revision of the banking laws such as has been generally contemplated. The dominant purpose of the Glass bill is a revision of the Federal Reserve Act to prevent the use of Federal Reserve credit for stock market speculation. It offers some relief for depositors in banks which may fail and a few changes in the law governing branch banking, affiliates and reserves as incidental provisions. Other measures relate almost solely to a government guaranty of bank deposits.

The Steagall bill provides for a fund of \$517,000,000 with which to guarantee deposits in member banks in the Federal Reserve. It proposes to raise this fund by appropriating from the Federal Treasury the \$167,000,000 which it has received from the Reserve banks as franchise taxes; \$150,000,000 from the present Federal Reserve banks' surpluses; and assessing member banks \$130,000,000 now and \$70,000,000 more later, in ratio of their deposits. It provides for a Federal Bank Liquidating Board which would be authorized to assess member banks an additional \$100,000,000 after the first twelve months' operations, all this with the idea of strengthening weak institutions and liquidating the insolvent ones and paying off depositors in installments, not less than 50 per cent within sixty days and all of the deposits within twenty months.

Senator Fletcher of Florida, ranking Democratic member of the Committee on Banking in the Senate, has a similar bill. He proposes to raise the necessary money by establishing a bank depositors' guaranty fund in the United States Treasury of 5 per cent of the capital stock of each solvent bank in the Federal Reserve System. Out of this all unsecured depositors in banks in the system which may fail are to be paid their deposits within ten days of the establishment of their claims. If this 5 per cent of the capital is not sufficient for the purpose he proposes that the Treasury advance the amounts necessary to pay deposits, taking a first lien upon all assets of the banks as security.

The Glass bill provides for a Liquidation Corporation in the Federal Reserve with half the Federal Reserve surpluses as capital through which suspended member banks may be rapidly liquidated. There are other measures along similar lines. Deposit guaranties and

facilitated liquidation, these are the remedies proposed for present ills; and always at the expense of the sound and solvent banks or the Federal Treasury,—or both.

Statesmanship or politics? Probably an effort at both. One is reminded of the definition of a statesman as a politician who is dead. It is inevitable, with conditions in the banking, financial and business world what they are, that politics should enter into all efforts to afford that relief which the country is demanding. Nevertheless there is an effort at real statesmanship.

There is not the least doubt that every member of Congress who has offered a remedy for a sick financial system has done so in an honest endeavor to solve

banking committees of the two houses only three profess any connection with banking. They are Representative McFadden, formerly Chairman of the House Committee, who lists himself as banker and farmer; Senator Goldsborough of Maryland, listed as lawyer and banker, and Senator Townsend of Delaware, listed as farmer and banker. Of the nineteen members of the Senate Committee one, Senator Walcott, is listed as a business man; another, Senator Couzens, as a manufacturer; one well digger, one live stock raiser and farmer, one newspaper man, one farmer and banker, one lawyer and banker and twelve plain lawyers.

In the House Committee the profession of three members is not stated, one is listed as a farmer and banker and the other seventeen are plain lawyers. Chairman Steagall of the House Committee was born in Dale County, Alabama, educated in the common schools with two years in an agricultural college and with a law course in the Alabama State University. He has been practicing law in his home town of Ozark, a place of about 3,000 population ever since. His right hand man on the Democratic side, Representative W. F. Stevenson, was born on a farm, worked on a farm, was educated in a North Carolina college, and has been practicing law in his home town of Cheraw, South Carolina, a place of 3,600 population, ever since. On the Republican side Representative L. T. McFadden, the sole banker on the committee, comes from Canton, Penna., a town of 1,900 population. Representative J. G. Strong, next in seniority on the Republican side, was born in Illinois, moved to Blue Rapids, Kansas, at an early age, read law and has been practicing there ever since. Blue Rapids has a population of less than 1,500. The Committee, in short, is led by men rather close to the soil. There certainly is no city bank domination in it.

The personnel of the Senate Committee is rather more varied, rather picturesque in fact. The chairman of the Committee is Senator Peter Norbeck of South Dakota. He is listed as a "Roosevelt Republican,"—certainly not under the domination of "big business." His home is in Redfield, a town of 2,664 population in 1930 as compared with 2,755 ten years previous. He was raised on a farm by a preacher father and is a well digger by profession. Senator Brookhart, the ranking Republican member,—he is listed as a Progressive Republican,—was born in a log cabin in Scotland (CONTINUED ON PAGE 663)



SENATOR CARTER GLASS



REPRESENTATIVE L. T. McFADDEN

at least some of the nation's problems. If the result falls short of that measure of sound statesmanship which is desirable the fault lies elsewhere than in intent. After all, a high degree of technical knowledge of banking such as would seem to be a prerequisite for sound and successful banking legislation can hardly be expected in a general legislator.

It is no idle curiosity which prompts the question as to who are these men who propose to assume the highly formidable and dangerous responsibility of revising the banking laws of the United States. Let it be realized in the first place that they are not bankers. Generally speaking they represent a cross-section of Congress and in that respect they are a cross-section of the people of the United States. Seventy-five per cent of them are lawyers.

Out of the forty men composing the



REPRESENTATIVE W. F. STEVENSON



SENATOR SMITH W. BROOKHART

# The Principal Parts of a Bank's Personality

## Public Relations Is Not a Task for Amateurs

**I**N recent months banks have been subjected to a heavy fire of criticism. Perhaps none of the criticism is so justified as "neglect of public relations". What the public thinks about banking and about individual banks has become more or less suddenly a matter of vital concern, so that a few suggestions as to public relations might be timely.

The most common manifestation of public relations is advertising, but, contrary to the casual belief, advertising consists of more than space in the newspapers. Every bank form that reaches the public, every letter that is written, every piece of literature, every speech made by an officer and every piece of publicity, whether it originates inside the bank or out, is advertising. Every time a member of the staff deals with a customer, he has given the bank some sort of reputation with that customer and has furnished a basis for the greatest advertising force known—opinion expressed by word of mouth. So perhaps Point I to remember is that advertising is a more subtle thing and a more comprehensive thing than is generally conceived.

### THE PUBLIC DECIDES

PERHAPS the second point to remember is that the very existence of the bank depends upon the public. This has not been generally conceded in the past. But it is a fact that no bank can continue in business unless its customers are satisfied that they want it to do so. If this is granted, the next point is obvious and is a truism of all merchandising—namely that the bank shall give the customers what they want. No merchandiser has been able to force upon the public for any length of time unwanted goods. Yet there are many goods, unknown a few years ago, that rank as

necessities today, simply because the producers have been intelligent enough to get the public to the point of appreciating not only the desirability of the goods, but the excellence of their performance and their price. It is on this score that banks may be criticized. It has been generally left as an assumption that bank service was a necessity, and it may be fairly stated that the bankers' acceptance of this assumption has precluded the possibility of his telling the public just what they are doing and how. Ignorance is ever the hot bed in which rumor and suspicion thrive, and it is probably safe to say that much of the grief undergone by some of our banking institutions has been the direct result not of ill will but of plain, every day ignorance. Perhaps we can conclude that, from the standpoint of self-preservation as well as from the standpoint of mutual benefits, each bank has a definite responsibility to enlighten

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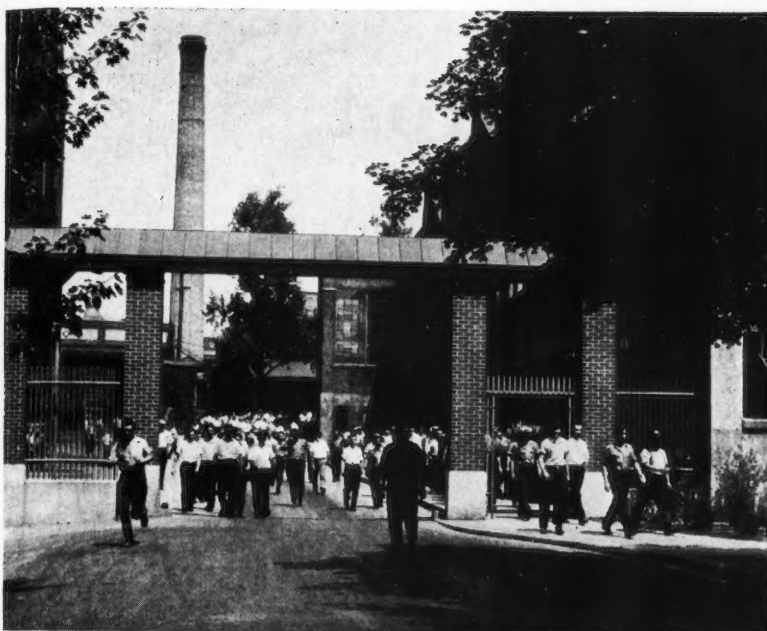
the public, in language which they can understand readily, as to the functions of banking and the relationship of banking and banks to every activity of the community and to every individual in the community.

Fundamentally the most important thought of all is that banks should appreciate not only the necessity of a public relations policy, but should appreciate the fact that public relations work cannot be done with the left hand. Public relations work is just as much a business as loaning money, and it calls for trained men. A bank officer talks with a comparatively small number of individuals in the course of business, and to each he tries to convey the correct impression of his institution. It is the duty of the public relations man to multiply these conversations by hundreds and by thousands to the end that those who do not deal with the bank shall yet gain an impression of its service and its personality similar to that held by its customers. To thousands of people the bank is just what the bank says it is, and it is of the utmost importance for any bank to define, with the utmost care, its personality, its functions, its philosophy.

### SEEING AS THE PUBLIC SEES

A BANK has a definite personality. Its character is felt immediately upon entering the door. And to those prospects and to the community at large that do not go through the door, it can convey a definite feeling of that personality.

This is not a task for an amateur. It is a task for one whose primary interest is human beings. The first requisite in dealing with the public is an understanding, a sympathy, and the ability to see through the eyes of another. Without these, public relations work is impotent. It is less important for a public relations man to know the details and technique of banking, of trust work or of the other functions that the bank may have, than to know and understand human beings. True, he should know enough about the bank's functions so that he does not make absurd statements. He must, of course, be sufficiently aware of the operations of any department to write or talk intelligently about its services. But he must see these services not as the operating man sees them, but in the light of what the public thinks, or wants. His is the duty of correcting wrong impressions before he can instill right ones; his is the task of finding out what the public wants (CONTINUED ON PAGE 663)



Trust companies are being called upon to help industry meet its obligations to employees

# Six New Trust Services to American Industry

## Trusteeship of Employee Funds Offers Wide Field

By GILBERT T. STEPHENSON

EVERY business institution that serves the public has a part to play in the industrial recovery that is sure to follow this period of depression. To a striking degree is this true of our 5,000 trust institutions, the aggregate resources of which total the stupendous sum of 50 billion dollars, not to mention the billions more that they are holding as trust assets.

These trust institutions, to be sure, have a major work to do—none the less important because indirect—in the industrial recovery through the proper investment of their tremendous trust funds and the proper management of their trust properties. But, in a direct way also, they have an equally important part to play in helping industry to meet its social obligations to its workers.

The immediate and pressing problem of industry is to relieve the eight or ten million unemployed in our country. But the far-sighted and public-spirited industrial leaders are already giving anxious thought to the stabilization of employment so that, in the event of another depression, there would be no such nationwide unemployment as we have experienced during the past two years.

Consequently, unemployment insurance, unemployment benefit, and wage guaranty plans of varied kinds are being offered for public consideration. We are studying the experience with unemployment insurance of 18 foreign countries, the unemployment benefit plans of the labor unions, the joint agreements between employers and employees to guarantee wages, the private company plans,

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The purpose of this article is to introduce a series of extremely valuable studies on the practical ways in which trust institutions can help industry meet various social obligations to workers. In the May JOURNAL Mr. Stephenson writes on employment stabilization trusts.

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and lastly the plan of the Interstate Commission on Unemployment Insurance.

A study of these plans, other than national employment insurance, shows that trusteeing the funds goes a long way towards assuring the success of the plan.

Industry has always felt, now perhaps more than ever before, its obligation to faithful employees who have been temporarily incapacitated by sickness or ill-health. It has attempted partly to meet this obligation by group insurance with disability features. But it is becoming more and more apparent that the benefits of group insurance should be supplemented by a plan that will permit more flexibility and discretion in distributing the benefits. Consequently, industry is turning to trust institutions to handle its funds for the relief of the temporarily incapacitated, not as a substitute for but as a supplement to group insurance.

Industry recognizes that any flat wage scale or fixed and inflexible basis of compensation is likely to fail to do justice to workers who render extraordinary services or who, by reason of their initiative, contribute in some uncommon way to the progress or profits of the business. It has devised many plans whereby unusual merit might be duly awarded.

In most instances, so far, industry itself has undertaken to administer the funds out of which these awards are made. Lately, however, it has begun to turn to trust institutions, not to administer these funds in the sense of deciding who is entitled to the awards, but only to hold and invest the funds and upon order to make the distributions.

We have (CONTINUED ON PAGE 648)

## BANKS AND CITIES

# 1. Detroit

By HERBERT MANCHESTER

ONE of the most interesting and instructive economic histories yet to be written, will be that of the rise of American cities, one which will study the factors of their progress, why they have prospered, why they have passed other cities, why certain industries have succeeded in them, and how much such industries have furthered their growth. In this future history, one of the ever-present factors to be found, will, we believe, be that of the banks.

The development of the district, its business activity, and banking appear to run side by side, without their interrelations being always evident, but a deeper search will almost surely discover that each acts upon the other two and is acted upon by them.

A study of the evolution of banking in different cities, has brought this thought to mind time after time. Banks have seldom benefited passively from the growth of the city or industries; they have far oftener been one of the great causes of that growth. They have acted as rallying centers for the resources of the community, and have

helped to direct them into paths of progress.

In the story of Detroit, the influence of banking on the growth of the city can be constantly felt in the background, even where it is not explicitly stated.

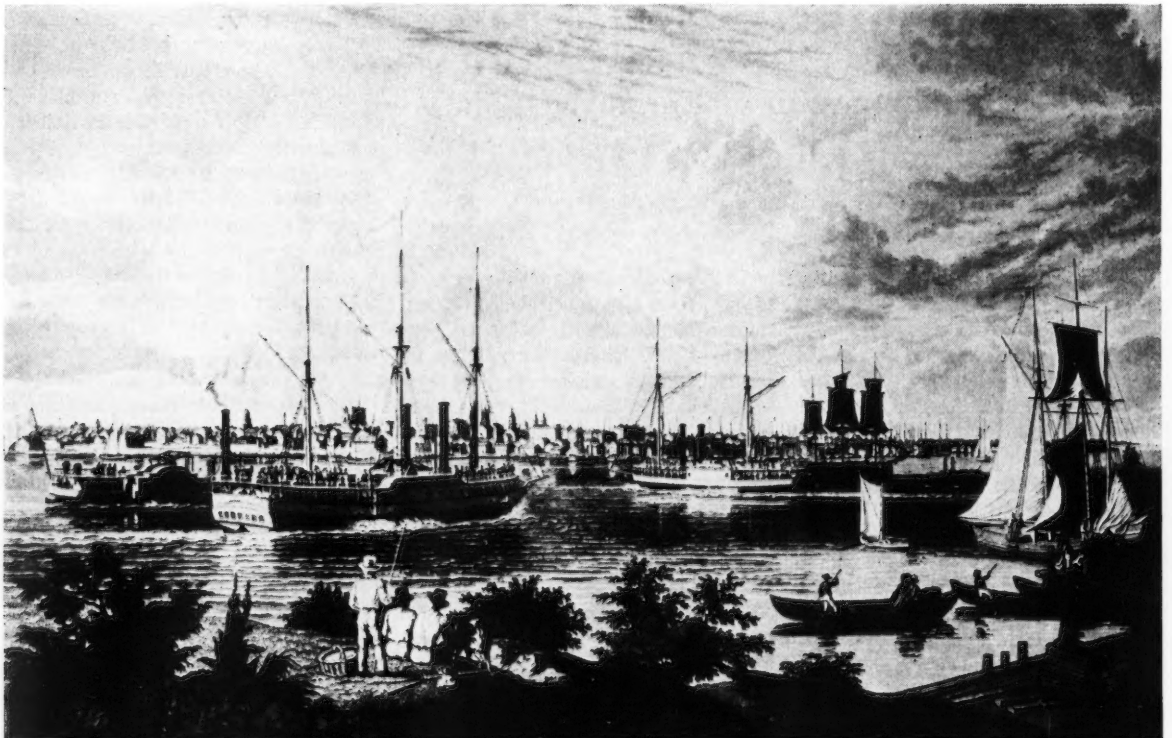
At the beginning of the 19th century, when Detroit was a mere outpost, a great fur trade passed from Lake Huron down the river to Lake Erie. In order to deflect some of this traffic from Canada to the United States, several Boston men, who had been engaged in the trade, petitioned the territorial legislature for a charter for a bank, and in 1806 the legislature authorized Governor Hull to

sign the charter. Part of the subscription was paid in on the shares, and one of the promoters took a small bale of the bills of this Bank of Detroit back to Boston, where they were to be put into circulation in New England. Carrying them this distance from Detroit was considered a great advantage, because it would take them longer to make their way back home to be cashed.

But this bank was never given time to show what it could do, for in 1807 Congress declared illegal the act of the territorial legislature authorizing the charter and the bank went out of existence the next year.

After the War of 1812, when Detroit was still a village, there was a demand for a bank to supply currency, which was in a chaotic condition.

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Next Month:  
New Orleans



Detroit from the Canadian Side in 1837 (FROM THE STOKES COLLECTION)

To begin with, there was an unavoidable lack of specie. No gold or silver to speak of was as yet mined in the United States. Although the United States mint was created in 1792, there was no provision for the purchase of bullion for coinage, and up to 1810 the total coinage of the mint had amounted to only \$9,505,000. This was a per capita coinage of only \$1.30, and most of even this was sent abroad.

In 1815 the principal silver money was still in Spanish coins which had been passed in trade up the Mississippi. These were much worn with long use, and were sometimes cut into quarters to make change. The few gold coins were either Portuguese or French from the same route. As late as 1820 the total coinage of the United States mint had amounted to only \$18,833,000, so that there was not enough specie in the country to supply either the banks or in-

dividuals with a reasonable amount of cash.

The lack of coins brought about the passing out of due bills by firms and tradesmen. Such "shinplasters" were backed up only by the reputation of the issuers, but were in common use as far as their trade extended.

Partly to meet the local need for better currency, and partly because immigration to Michigan was beginning, the Bank of Michigan was chartered in December, 1817, and upon opening in January, 1818, with \$10,000 in its strong boxes, at once began the issue of bills.

It was founded just in time to be an important factor in the development of the Territory. In 1818 steam navigation on the lakes was inaugurated by the arrival from Buffalo of the Walk-on-the-Water. In the same year the plots of public land purchasable were re-

duced in size to 80 acres at \$2 an acre, and in 1820 the price was lowered to a minimum of \$1.25 an acre.

The combination of cheap land and transportation brought boat load after boat load of settlers, and as the land could be paid for in installments the bank took an important part in the transactions between the purchasers and the Government.

The demands on the bank were so great that in 1824 the paid-up capital was increased to \$60,000, but this led to the control by eastern stockholders, notably the Dwights, and the resignation of the president, John R. Williams.

In 1829 John R. Williams, with other local shareholders, organized the Farmers' and Mechanics' Bank with a capital of \$100,000.

Both banks were highly prosperous for the next few years. Along with the rest of the (CONTINUED ON PAGE 643)



Now This Is Detroit

(GALLOWAY)



Hundreds of customers have their only daily contact with the bank through tellers or assistant cashiers

# Personnel and Relations with the Banking Public

Every Employee of a Bank  
Is a Person of Importance

By WALTER R. BIMSON

**T**HE president of a bank may be a charming man and an able banker.

He probably answers to both of these specifications, which is why he fills his job. But his charm and his ability have little chance to carry the institution to its greatest possibilities unless it is staffed by the best possible personnel all through the ranks.

For a hundred customers deal daily with a teller or an assistant cashier who never saw the president or do not speak to him if they see him. He cannot possibly advise more than a dozen people a day, but in a large bank a thousand customers receive advice daily from his assistants. And the bank may stand or fall, in the eyes of the individual depositor, on the attitude of a hundred-dollar-a-month employee.

Therein a bank differs from many other types of business. The right kind

of employees are far more important to a bank. The manufacturer points pride-

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Large banks come first to mind as examples because the savings they attain from sound personnel programs—and the losses they suffer for lack of such programs—are more spectacular in number of dollars. But small banks can make the same types of economies, are suffering the same types of loss. Often the attainable savings in the small bank are proportionately greater than in its metropolitan correspondent.

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fully to the automobiles, the paints, the shoes, or whatever he produces, and says, "These, after all, are my claim to success and profits and prestige." The banker must say to his employees, "You are the bank."

The manufacturer says to his product, "Go out into the world and make friends for me." The banker must say to his people, "I have nothing to show the world but you!"

In most businesses, sales work is separated from other activities and only the salesmen need be trained to sell. In our bank, half of our people have daily contact with the public. These men and women produce new business and sell our service to the old customers. Obviously, we must have in these jobs the right employees if we are to hope for a good impression.

Quite as important is it that the people behind the scenes handle their jobs accurately and quickly. Otherwise they lose business for us just as promptly as a surly teller. Every bank officer has had experiences to prove this to him.

Just the other day a desirable account came to my desk without previous solicitation. I did not even have to ask the man why he was leaving the other bank which had held his account for years; he told me voluntarily. "They didn't send me a notice of a note due, then they debited my account for the face, and a lot of my checks came back," he explained. "No bank will ever get a second chance to pull that sort of a trick on me."

The officer at the other bank in charge of this account might explain until the cows come home that it was a clerical error which happens despite elaborate precautions. Probably he did try to explain it, if he got the chance. But the fact remains that this error, by a clerk who never sees a customer, lost that bank a good account.

All of this should be obvious to any banker. Perhaps it is obvious. But nothing is done about it except talk. At conventions, in magazine articles, there is a goodly wordage about personnel work in banks. Most of it says nothing. On the average, not one good idea a year is generated in the bank personnel field and brought out for public inspection. No single sub-head of banking is so poorly developed.

What inspired this article is a report recently issued on bank personnel work by a national organization outside the banking field. This organization has issued scores of reports scattered throughout the (CONTINUED ON PAGE 640)

# The Reconstruction Workshop

**It Has None of the Air of a Financial Sanctum. It Looks Like a Workshop**

By WILLARD M. KIPLINGER

**A**ROUND midnight recently I walked up Pennsylvania Avenue past the White House, and on west. Streets were deserted and windows were dark, except for three tiers of lighted windows at the top of the old Department of Commerce Building at Nineteenth Street, where the new Reconstruction Finance Corporation is housed. I entered and went to one of the floors, out of sheer curiosity to see what was going on. Charwomen were at work. So were examiners, secretaries and clerks of the Reconstruction Corporation. One of the directors was at his desk, poring over piles of correspondence. Loan applications were going through the mill—at midnight.

The incident is not important, but it gives a glimpse of the mechanism behind the idea of Government loans for aiding banks and other institutions in the period known as "reconstruction."

At nine the next morning I was back. So were the examiners and the officials. At two-thirty in the afternoon I was back again—at the board room. Mr. Dawes walked in from lunch at the Metropolitan Club, with hat turned down, coat collar turned up, no pipe, grumpy. The cheerful Mr. Meyer arrived from his office in the Treasury, for he is Federal Reserve in the morning and Reconstruction in the afternoon. Youngish Mr. Mills breezed in from the Treasury, where he is Secretary in the morning. Mr. Bestor walked over from the Farm Loan Board, for he also has dual jobs and splits the day between them. Messrs. Couch, Jones and McCarthy, the other directors, came down the hall from their offices. Mr. Cooksey, the secretary, barged in with two armloads of documents.

The board room, where hundreds of millions of dollars of Government loans are made, has cheap-looking Government furniture and a nappy rug. Its walls are bare and it smells of new paint. It has none of the air of a financial sanctum. It looks like a workshop.

The point of these observations is that the Reconstruction Finance Cor-



MR. KIPLINGER

poration actually is a workshop. In a few weeks a body of men has been put together, with day work and night work, to perform an emergency task of Government banking. It is a hazardous job, full of danger, full of dynamite, full of opportunities for gross errors of judgment.

The question at this stage is: How well is the job being done? Without meaning to puff or praise or talk rubbish, let me say that it seems to me the job is being done exceedingly well, that the results to date are overwhelmingly good, and that the dangers inherent in the whole scheme have been minimized by careful administration. The object of this discussion is to explain briefly what is being done, and how; also to express

a few unauthorized opinions on what may be done in the future.

You bankers, to whom this is addressed, are already familiar with the general purposes of the plan as set up under the new law. The Federal Government created a super-bank or finance corporation, with 500 millions of taxpayer money supplied through the Treasury, and with authority to borrow 1,500 millions more, either from the public or from the Treasury, through issuance of the Corporation's obligations.

This amounts to socialization of banking. It is clearly state socialism in the realm of credit. It is intended to be temporary, only for the emergency. It is a matter of social and economic expediency, and the administration of it from day to day is of far greater importance than the mere factual developments or itemized accomplishments, for the plan has broad political implications for the future. Either the banking structure and operations will be improved in the future, or public policy will insist on more and more measures of Government banking. The tendency in the past has been to extend the Government's functions into the banking field, not merely through supervision and regulation, but also through direct competition by Government-established credit agencies. What the tendency of the future is to be remains to be seen, but it is directly affected by the degree of success of the Reconstruction Finance Corporation plan.

The Corporation in making loans is not bound by the ordinary rules of private banking. The soundness or unsoundness (CONTINUED ON PAGE 634)

# EDITORIALS

## One Out of Five

IN the past six months there have been five major efforts to rebuild public confidence and hasten recovery: The National Credit Corporation, the Reconstruction Finance Corporation, the Glass-Steagall Act, the Citizens Organization and the Glass Bill.

Each of the first four had an effect on business and public sentiment that was definitely and unmistakably favorable. The National Credit Corporation, from the moment it was first announced, was regarded as a move in the right direction. It was a practical answer to certain immediate problems. Differences of opinion existed, but were concerned mainly with the long term value of the Corporation as a brake on deflation. The feeling was fairly general at least that it represented strong, timely action and the determination to stand up and fight.

## Reconstruction

THEN came the Reconstruction Finance Corporation. Once more the country was able to recognize instantly a move that was sound, practical and helpful, which was not based on theories and guesswork. The average citizen's reviving confidence expressed itself in a number of ways. The Corporation was accepted as new proof that financial, industrial and political leaders were ready to take whatever steps might be necessary to banish fear.

## Vice Versa

ON January 21 Senator Glass introduced his bank reform bill embodying the results of a very long inquiry into the working of the banking laws. The bill provided a variety of fundamental changes. In striking contrast to the welcome accorded the two previous steps, there was no evidence at all that the Glass Bill had exerted a reassuring effect on the nation. In fact, without going out of the way to criticize the measure, it had quite the opposite result.

Perhaps business failed to understand the real significance of this proposed legislation with its labyrinthian pattern. Perhaps industry did not realize what the bill was intended to accomplish—that it was designed not only to relieve the depression but also to take out by their roots the very causes, thus making it impossible—illegal in fact—for a similar, troubled period to recur. But, whatever the reason might be, there was unquestionably a marked difference between the public reception given the Glass Bill and the unmistakable signs of new confidence that followed the two prior attempts to face the facts of the depres-

sion. And so, one result of the unfavorable reaction to the Glass Bill in its first form was its return to the subcommittee where it originated.

Between January 21 and March 17, when the measure reappeared in its revised form, Congress passed the Glass-Steagall Act, and the Citizens' Reconstruction Organization started its action against hoarding. The improvement in business sentiment which accompanied each of these steps is all the proof anyone can ask that both were inspired by common sense and guided by experience.

## The Revised Glass Bill

THE present Glass Bill is minus certain emergency features incorporated in the Glass-Steagall Act, and does not include a few of the provisions which met with particularly unfavorable response in the original bill. In its main aspects, however, it is much like the January bill.

It retains proposals which are debatable and which should receive careful and unhurried consideration.

The central purpose of the bill remains the same—the restriction of the use of Federal Reserve credit in speculation. This is wholly commendable. For more than two years Senator Glass has been searching for some way to build a legislative dike that will keep Reserve credit out of the stock market without also keeping it out of industry and commerce. He believes that he has found the answer but his method shares the fault common to all such efforts. It will not work.

Assuredly at this moment there is no need of any law to keep the public from speculating in securities. Also if the Glass Bill had been law in 1928 and 1929, it would have been repealed by popular demand, or nullified in some manner. At least it can be set down as fairly certain that the very moment when a strong curb on speculation is desirable, is just the moment when the public would not tolerate intrusion by the Government or the nation's banks.

## Taxation

HOWEVER, all of these efforts to dismiss the depression are only a preface. "The keystone of the arch," says Secretary Mills, "is a balanced budget and the unimpaired credit of the United States Government". The nation's structure of private credit is inseparable from the credit of the Government. The Federal Reserve System itself is founded upon the credit of the United States Government. The customary political considerations of a presidential year must not obscure the fact that much recent progress would be lost by failure to balance the national budget.

# 16 Deposit Guaranty Bills in Congress

## The Idea Persists Despite Past Attempts

By THOMAS B. PATON

**T**HIRTEEN bills have been introduced in the House of Representatives and three bills in the Senate at the date of this writing, having for their purpose the guaranty, in some form, of deposits in National banks and in State banks which are members of the Federal Reserve System. The introduction of this large number of bills indicates a considerable sentiment among members of Congress for the enactment of legislation of this character and it would seem none too early for the bankers of the country, before this sentiment becomes too deep-rooted, to point out to their respective representatives that such a policy is wrong in principle and the dangerous results which would ensue.

Guaranty of deposits has proved a failure under state, and it would equally prove a failure under national, auspices. It is unfair to sound, well-managed banks because it makes them contribute to a fund to make good the mistakes of their weaker brethren; and it encourages unsound banking because there is no need for a depositor, knowing that his deposit is guaranteed, to discriminate between the bank which is carefully and prudently managed, and one whose management is not so prudent and which, with a deposit fund more easily augmented because of the guaranty, will make loans and investments regarded as unsafe by the more carefully managed bank. The inevitable result has been the failure of mismanaged banks and the ultimate bankruptcy of the guaranty fund.

### THE STATE LAWS ENACTED

SINCE the disastrous Bank Guaranty Law of New York of 1829 under which the fund became bankrupt in 1837 and

the law was abolished in 1842, the following states have enacted guaranty laws which in every case have proved disastrous because they have tended to demoralize sound banking and accentuated rather than prevented losses to depositors:

Oklahoma .....	1908
Kansas .....	1909
Texas .....	1909
Nebraska .....	1909
Mississippi .....	1914
South Dakota .....	1915
North Dakota .....	1917
Washington .....	1917

### AND WHAT HAPPENED

THE disastrous results led to repeal in 1923 of the Oklahoma law, in 1927 of the Texas law; in 1929 of the Kansas, North Dakota and Washington laws; and in 1930, of the Nebraska law, coupled with the enactment of a Depositors' Final Settlement Fund, to be maintained for ten years by an annual assessment of 2/10 of 1 per cent on average daily deposits. The South Dakota law is still in effect, but it is a complete failure and there is a hopeless deficit, constantly growing larger.

In the remaining state, Mississippi, Chapter 22 Laws of 1930 provides for the suspension of the operation of part of the law until the outstanding guaranty certificates are liquidated and at a special session in 1931 a law was passed for the issuing of bonds to raise funds for the payment of guaranty certificates.

The following are the bills introduced in Congress to date, listed in order of introduction in House and Senate respectively, all of which have been referred to the respective committees on banking and currency. Only the general

character of such bills is indicated, without detailed analysis.

### INTRODUCED IN HOUSE

Dec. 8, 1931. H. R. 313, Howard. (Neb.) Would guarantee payment of deposits in national banks by assessments levied by Comptroller.

Dec. 8, 1931. H. R. 4512, Beam. (Ill.) Would require surety bonds by national banks for protection of depositors as a condition of doing business. Bonds to be for full amount of deposits.

Dec. 8, 1931. H. R. 4572, Hastings. (Okla.) Would require furnishing bonds by national and state bank and trust company members, Federal Reserve System—to the extent of 25 per cent of deposits, exclusive of deposits otherwise specially secured and interest-bearing time deposits.

Dec. 9, 1931. H. R. 5125, Hare. (S. C.) Would require so much of net earnings derived by U. S. from Federal Reserve banks as necessary, be used by Board for payment of depositors in failed member banks; not to exceed 50 per cent of any one deposit. If such net earnings insufficient, additional amounts not exceeding total amounts paid to United States authorized to be appropriated.

Dec. 17, 1931. H. R. 6181, Lamneck. (Ohio) Would establish Depositors' Guaranty Fund under supervision Federal Reserve Board in each Federal Reserve District. Member banks in district would be assessed.

Jan. 4, 1932. H. R. 6705, La Guardia. (New York)

Would establish Depositors' Guaranty Fund in each Federal Reserve District by assessment upon member banks in the District. State member banks not required to comply after effective date of system of protecting depositors established by State if in opinion of Federal Reserve Board state system will protect.

Jan. 15, 1932. H. R. 7806, Cable. (Ohio) Would establish Federal Guaranty and Insurance Corporation to protect bank depositors with capital of \$100,000,000 and power to issue debentures to five times capital. National banks must become stockholders and State banks, trust companies, and building and loan associations eligible, whether or not members Federal Reserve System. Stockholders to pay corporation annually 2/2000 of average deposits to constitute Reserve Deposits Guaranty Fund.

Feb. 8, 1932. H. R. 8989, Shallenberger. (Neb.)

Would insure payment of deposits in national and member banks. Creates Depositors' Insurance Fund in each Federal Reserve District maintained by assessments on member banks.

Feb. 20, 1932. H. R. 9594, Jenkins. (Ohio) Creates Depositors' Guaranty and Insurance Fund in each Federal Reserve District to be maintained by assessments upon member banks.

March 2, 1932. H. R. 10,040, Disney. (Okla.)

Creates Bank Depositors' Insurance Fund to be administered by Federal Reserve Board into (CONTINUED ON PAGE 652)



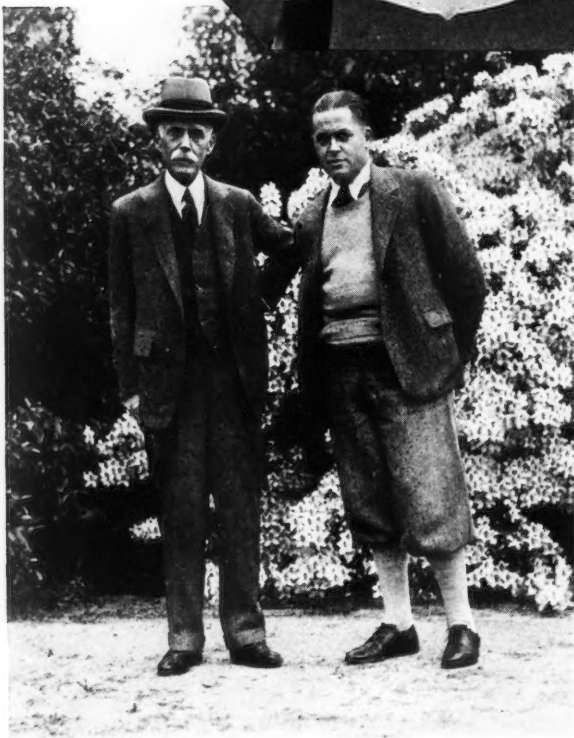
President von Hindenburg, by defeating Hitler, still dominates the German scene

## The Month

Below: The Senate sub-committee appointed to investigate the stock market. Left to right, Senators Steiwar of Oregon, Walcott of Connecticut, and Bulkley of Ohio



W. A. Irwin, who succeeds James A. Farrell when the latter retires this month as President of the U. S. Steel Corporation



Ambassador Mellon goes to London at a crucial moment in the debt negotiations. He poses here with Bobby Jones who has taken care of American golfing interests abroad at various times in the past



Chief Justice Hughes and Associate Justice Benjamin Nathan Cardozo who recently was appointed to the U. S. Supreme Court as successor to former Justice Oliver Wendell Holmes

# Where to Strike the Depression

## The Reconstruction Corporation Is Chiefly a Blow at Fear

By R. S. HECHT



MR. HECHT

THE Reconstruction Finance Corporation is not a sensitive financial institution that has to place profits and liquidity of assets ahead of public service; nor is it a reserve mechanism for the current expansion of banking credit. Rather, it is a supplementary adjunct to our regular business and financial mechanism devised for the purpose of applying a substantial volume of public funds to easing for a limited period the burden of sound but unliquid assets which have been imposed upon financial institutions by worldwide economic conditions beyond their control and beyond their unassisted strength to carry without the danger of a breakdown.

Herein lies in large measure the purpose and benefit of the Corporation. If it can relieve the cramped condition of our credit structure, it will unquestionably go a long way toward re-establishing that measure of confidence necessary for a return of better times in commerce and industry. That, in turn, will mean greater security for those who

have jobs and the gradual calling back to their benches and their desks of many who have lost their jobs. Purchasing power, as well as confidence, will then increase and a sane era of cautious but courageous business revival should follow.

Revived business activities will inevitably bring about a thawing out of many of these frozen credits, thus in turn enabling the Corporation gradually to liquidate its portfolio. It will necessarily be a process of several years to accomplish it, but there is no good reason why the ultimate working out of the Reconstruction Finance Corporation should not be as successful as was that of the War Finance Corporation.

In the meantime, it seems to me quite unfortunate that certain prominent citizens, who really know better, should both in serious conversation and facetious "wise-cracks" refer to the activities of the Reconstruction Finance Corporation as a "Dole" system for bankers or as a device for the taking over at the expense of the Government of the mistakes that business and finance have made. The Corporation will not and cannot be used as a dumping ground for unsound assets. It will render assistance where it is fully deserved and in the public interest.

It is needless to point out how many institutions, through circumstances beyond their control, have been put into a position which prevents them from performing their normal functions; nor can it be denied that, in the complicated economic mechanism of our modern life, the consequences of the breakdown of our financial institutions would affect the life, comfort, and welfare of all of our people. It is clear that these con-

ditions create a public emergency which fully justifies the cooperation of the Government with the business interests. On the other hand, there is no thought or intention of permitting this Corporation to subsidize private enterprise or to interfere with private initiative and independent efforts to put our houses in order without such aid wherever possible.

Its sole purpose is to enable sound banks to continue in operation, to enable railroads and other productive enterprises, based on the economic needs of our people, to obtain requisite financial support. In short, it is intended merely to free and make effective and available once more the forces of our existing credit facilities which just now are partially paralyzed by reason of the fact that they have become temporarily frozen. And bear in mind that in large measure this freezing process has been due to fear on the part of individuals and corporations. Dispel this fear and relieve the existing pessimism and we shall soon have confidence re-established and frozen assets once again made liquid.

We must not put too much faith in the Reconstruction Finance Corporation alone! It is not the whole army! It is not the main line of defense! Two billion dollars is a lot of money, but it is not a limitless defense against the tremendous forces of deflation and liquidation now attacking our economic strength and values. The main line of defense must still be found in the courage, wisdom, and energy of our business leaders and the faith and confidence in our country on the part of all of our people. At best the Corporation can be little more (CONTINUED ON PAGE 656)

●

**Bankers are just as human as their clients. The depositor never wants his money as long as he is sure he can get it when he does want it. The banker never wants to lend his money unless he is sure that he can get it back promptly, or at least that he has collateral on which he can readily realize through sale or rediscount if the necessity arises unexpectedly.**

# Nine Pictures of Clearinghouses in Action

## The Dividends of Cooperation Are Among the Certainties

By DAN V. STEPHENS

**R**ESULTS have proved beyond question the value of the clearinghouse idea to banking. The achievements of the First Nebraska Regional Clearinghouse Association are typical of the entire movement toward cooperation and will serve to show what can be done when the banks of a community work together.

First, this organization fathered the movement in the United States to initiate service charges on small accounts and other services and published the first uniform list of such charges in 1926 and 1927 throughout the banking journals of the country. Since that time the practice has become quite general.

Second, it challenged the banking department, for the first time in the history of the state, in its practice of promiscuously issuing bank charters to all applicants, who could qualify with the necessary capital. The result of this challenge, which carried a statewide campaign with it, stopped the issuing of charters almost completely and no charters have since been issued where there were existing necessary banking facilities.

Third, this association, through its president, first challenged the guaranty law and declared it bankrupt and joined with others in bringing an injunction against the banking department to prevent any further collection of assessments and has since supported the litigation, which, we hope, will ultimately lead to court action confirming the association's original position.

Fourth, it was the instigator, through its president, of the movement to make service charges against public funds and

promoted the first legislation, ever enacted in the United States, authorizing the state treasurer to pay a service charge of 1 per cent on public funds. Through its efforts thousands of banks throughout the United States have since collected service charges from counties on public funds, thus greatly strengthening the banks, which were heavily burdened by carrying surety bonds and paying large interest on public funds.

There is a long story of the benefits accruing to the bankers of this district and of the country at large from this organization, that cannot be told in a few paragraphs, but it can be summarized by stating that the banks of the



Mr. Stephens estimates the value of clearinghouses to banks in hundreds of millions

From Northern Minnesota:

Service charges have been instituted, and float charges are in operation. At meetings the different problems of the individual members are discussed, and as a result better feeling and better understanding are prevalent. There is no question but that profits have increased as a result of the work of the association. The problem of reduction in interest is being taken up, but so far the success that should have been achieved has not resulted. Some of the banks have lowered their rates and are reaping the benefit.

United States, as a result of these initial movements of this First Nebraska Regional Clearinghouse Association, have received hundreds of millions of dollars through the collection of fees for services and by preventing the exploitation of the banks by the people and legislative bodies generally.

This exploitation by legislative bodies of states and their subdivisions had grown into such a fixed practice, even after our own legislature was convinced of the fairness and justice of a service charge against the public funds (on which the state was collecting a fixed interest of from 2 to 3 per cent and which funds were secured by surety bonds costing anywhere from 1 to 1½ per cent) that we had considerable difficulty in keeping the state treasurer from exercising his option, which the law permitted him to do. He undertook to force the banks of the state to accept ½ of 1 per cent, instead of 1 per cent which the law authorized, and, when the banks refused to accept his proposition of bargaining, he invested large sums of state money in government bonds (one of the late 3 per cent issues) and, we are informed by quite good authority, that the shrinkage in those bonds at the present time, if the state had to sell them, would amount to an exceedingly large sum, possibly as much as \$100,000 or more.

County authorities also have discovered that, when they attempt to invest their funds in alleged liquid securities, they can lose in a single year sums many times greater than the service

charge would cost them for a decade.

The bankers of the United States, who have been charged with carrying and securing public funds throughout the last several years, have suffered staggering losses in behalf of the public through their investments in liquid securities and, at the same time, have paid 2 per cent and 3 per cent interest on the funds besides furnishing the surety bonds.

The bankers of this country have certainly been justifiably characterized as easy marks as a result of their permitting themselves to be exploited by legislative bodies of the various states and their subdivisions. The result of the exploitation has been the insolvency of thousands of institutions, that might otherwise have weathered the storm.

A clearinghouse association in eastern Arkansas reports:

Our association has brought about closer cooperation with the member banks in producing a profit on a lot of items that were being handled at a loss, and in formulating a credit policy by the entire district, which will be the means of conducting safer banking institutions in the group.

Another in northern California states:

With few exceptions, the banks were not taking advantage of the service charge, return check charge and various other sources of income from appraisal charges for appraisements and small loan fees. We have overcome these difficulties and now with very few exceptions have put these into effect. We are maintaining better average balances commensurate with the loans carried, and this understanding between the banks individually has put them in position to check against duplicate borrowings.

From Southern Michigan:

While we have no penalties for infraction of any rules promulgated by the clearinghouse association, we have had very good results in gentlemen's agreements to do or not to do certain things.

Practically all of the member banks are now using the service charge on checking accounts, and one member is using the metered service system on commercial balances.

A large number of banks in this vicinity, and particularly in our group, have reduced interest rates from 4 per cent to 3 per cent.

We have but recently adopted a plan of cooperative bank advertising which is to be of a more or less educational

nature, and which is to be used twice a month by our members in their local newspapers. Where there are two banks in the city or town, this advertising appears under both names.

Probably the greatest benefit, however, was the formation about a year ago of a credit bureau. The clearinghouse association bought all the necessary forms and supplies, and we own the filing equipment, etc. The local credit bureau manager has taken the clearinghouse credit bureau work into his own work, and the plan is functioning very satisfactorily.

With the benefits derived from the round table discussions, our meetings are well attended by anywhere from one to a half-dozen men from each bank. It has nearly reached a point where members are afraid to stay away for fear that they will miss something of benefit to themselves.

What our clearinghouse has done more than anything, is that it has benefited this section of the country in destroying the fear and secretiveness of our bankers. As a matter of fact, we no longer have secrets from one another.

From New Mexico, this comment:

We believe our organization is doing a very good work among its members. There has been a wholehearted cooperation at all times and we seem to be accomplishing a great deal for our mutual benefit.

Our meetings are always held in the evening with a banquet preceding a program of general interest to our members. Considerable time is always given to round-table discussion and it has proved a highly satisfactory medium of ironing out differences in member bank practices and in encouraging a most healthy cooperation, and unity of action in all banking endeavor.

We have made thorough studies and discussed such subjects as cooperative

buying of supplies, cooperative advertising, handling of cotton drafts, bank cost accounting, dormant accounts, National Credit Corporation, unprofitable accounts, exchange of credit information and duplicate borrowing.

We considered the medium to be adopted for the dissemination and exchange of credit information and it was decided, for the present, that informal discussion could be used to better advantage than an organized credit bureau. The most outstanding work we are doing is the determination of duplicate borrowers. Our plan is as follows: At every other meeting of the association (every six months) each member bank submits to the secretary a complete list of all their borrowers. The names on each list are then compared with the names on every other list and all duplicate borrowers are determined and reported to the member bank concerned. It is then the practice of all member banks concerned to communicate with one another as to the amounts of duplicate lines and security held. Once a year the secretary supplies each member bank with a copy of the borrowers' list of (CONTINUED ON PAGE 655)

## A Service To Our Customers

The first essential in making any investment, is to know the facts. If you wish up-to-date facts on any particular security, we will gladly get them for you.

We consider it a part of the service we owe to our customers to share investment knowledge freely with those who need it. Through arrangements with our eastern correspondents, we can offer an investment service at a moderate cost.

### REGIONAL CLEARINGHOUSE NO. 3

of the  
New Mexico Bankers Association

#### COMPOSED OF THE FOLLOWING BANKS:

FIRST NATIONAL BANK  
Roswell, New Mexico  
CARLSBAD NATIONAL BANK  
Carlsbad, New Mexico  
FIRST NATIONAL BANK  
Artesia, New Mexico  
CITIZENS STATE BANK  
Artesia, New Mexico

FIRST NATIONAL BANK  
Hagerman, New Mexico  
LEA COUNTY STATE BANK  
Lovington, New Mexico  
BANK OF COMMERCE  
Roswell, New Mexico  
FIRST NATIONAL BANK  
Carlsbad, New Mexico

When a community knows that its banks stand together, public confidence increases a great deal

# Municipal Finance at the Fork in the Road

A Majority of American Cities  
Are in Sound Condition

By MORRIS EDWARDS

FOR nearly a quarter century, students of public finance have viewed with solicitous concern, if not genuine alarm, the rising tide of taxes and debts of state and local governments. On occasion, they have shaken reproving fingers at half-attentive aldermen, recounting the perils of free-handed public spending. Time and again they have warned taxpayers that their apathy would be costly. As each fresh lot of statistics has shown a mounting ratio of taxes to national income and of public debts to wealth, they have forecast the dangers of such a trend, solemnly predicting a stern day of reckoning. It is here. It is, moreover, living up to its advance notices.

Until recently, city fathers and taxpayers accorded to these perennial admonitions much the same tolerant disbelief as that of the healthy, vigorous man when his doctor tells him that unless there is a let-up from cocktails, red meat and black cigars, his health will be in a bad way. "Shucks," he says, "I ain't sick. Don't get excited about me."

Now, however, a shortage of cash caused by diminishing tax collections and a sharp contraction of the market for bonds and notes have changed the situation. To the plea of the municipal reformer for economy and efficiency in state and municipal government has been added the compelling voice of the banker and bondholder. Current conditions have done what statistics and charts never were able to do. They have produced a state of mind alive to the realities involved. They have led to swift, decisive action of encouraging proportions.

It is common knowledge that state and municipal governments—not just those of great cities whose fiscal grief dominates the newspaper headlines, but those of states, smaller cities, school districts and rural counties as well—have come to a fork in the road of carefree public spending. While New York's governor talks of heroic tax measures to sustain state services, salaries and grants of aid at the peak level of more prosperous times, its legislature, sensitive to the

opinion of the folks back home, takes the alternate course of cutting the budget \$20,000,000. Scores of cities can find no market for their short-term notes. Wealthy large cities and even states receive no offers when bids are sought on their bonds. Public officials in various parts of the country scold the Federal Government for placing the resources of the Reconstruction Finance Corporation beyond their reach.

Apparently the taxpayer is coming out of his long sleep. While 15,000 taxpayers meet in Philadelphia's Independence Square to protest against tax increases, 3,000 aroused farmers of Fari-bault, Minn., storm the courthouse to demand reduction of confiscatory burdens, and 4,000 citizens of conservative, thrifty little York, Pa., air their real or fancied tax grievances in a public demonstration. But such mass protests are only the surface gestures of a more comprehensive, sustained movement throughout the country to "do something now" about taxes. It manifests itself in bluntly worded petitions to legis-



When Chicago was very young



Chicago today—it has cost vast sums to build and manage American cities

lative bodies, organization of taxpayers' associations, and formation of citizens' emergency tax reduction committees.

In some quarters, such developments are viewed as ominous signs of a taxpayers' revolt, with disorderly methods threatening consequences worse than high taxes. More generally, however, they are regarded as nothing more than healthy evidences of the taxpayers' insistence that extravagance be curbed, that governmental costs be deflated to a level within reach of slim private pocketbooks, and that the heedless habits of a spendthrift era of public finance be sharply revised.

Even a cursory examination of conditions shows that some states and cities today are worse off than others. That may be due partly to past history, insofar as some were less extravagant than others prior to 1930. It may be due partly to the fact that some communities have been affected more severely than others by general influences of business depression, or it may be ascribed in part to peculiar local events, such as the sequestration of public funds in failed banks.

But if any one explanation is to be made of why some units of government are worse off than others, it probably will be found to hinge on the element of time. Either they blinded themselves too long to the need for making drastic adjustments, or, while recognizing the need, they spent precious weeks and months in fruitless bickering over just

what was to be done, and meanwhile the situation slipped at least temporarily out of control. That seems to be the only key to what otherwise might seem to be curious paradoxes in present conditions. In other words, the criterion of how governments are stemming the tide is not essentially different from that of how private businesses are meeting their trials. The intangible qualities of ability to see ahead, common sense, energy in enforcing decisions, and capacity for management are asserting themselves just as decisively in each situation.

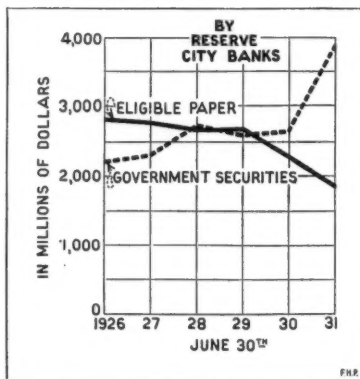
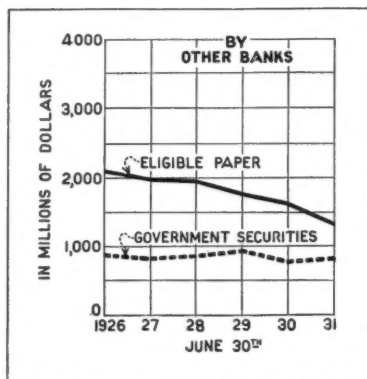
State and local governments fall largely into two classes—those which moved promptly to effect adjustments, and those which drifted aimlessly—with respect to the manner in which they have adjusted their affairs to altered circumstances. Dividing them thus not only aids in analyzing their present conditions and in anticipating trends which may be expected in the near future, but serves also to establish unquestionably that municipal corporations in the aggregate are by no means as badly off as might be assumed from a scanning of newspaper headlines.

First, and very much in the public eye right now, are the cities—almost invariably large metropolises whose costs of government and taxes went to the highest per capita levels prior to 1930—which resisted the process of adjustment until it was too late to accomplish it without considerable public laundering of soiled linen.

Foremost in this group, certainly in point of the number of column inches devoted to the public airing of its difficulties, is Chicago. But its distress, of course, is no more the exclusive product of current conditions than is the failure of the merchant who bought twice as much stock as he could move, refused cash discounts, sold on credit, ignored collections and kept no cost accounts. Instead, it is the climax of a long period of maladjustments and citizen unconcern over unhealthy conditions.

Not only has Chicago been affected by the general forces which have embarrassed all large cities, but it also has had to put up with the paralyzing effects of longstanding shortcomings in a number of fundamental directions, notably in its unsatisfactory system of assessing property for taxation. It endeavored to patch up this system in 1928, only to have the assessments of that and subsequent years declared invalid by the courts on grounds of palpable discriminations between taxpayers, thus making it impossible for several years to levy legally collectible taxes. There is no minimizing the acute seriousness of its situation, with obligations in arrears and public employees months behind in their pay.

But today's difficulties—now magnified by the recess of the special session of the Illinois legislature without the passage of emergency remedial legislation—are due only partly to its legal tribulations. (CONTINUED ON PAGE 666)



Charts comparing the member bank holdings of eligible assets by Reserve city and country banks

# The Case for the Country Banks

## What Sources of Deposits Does the Future Offer

By W. ESPEY ALBIG

IN restoring prosperity in the United States it is imperative that conscious thought be given to strengthening the position of the country bank. Its managers know in particular detail the needs of the business interests of the area. From the bank comes the necessary credit—the life blood—for local institutions.

If present tendencies are to continue, then banking practices and policies must be scanned thoroughly. Several courses operate in the present difficulty: the flight of deposits to metropolitan banks, the elimination of short-time financing by local industries at banks, and too great dilution of the banking business by so-called financial institutions.

What has happened? Time deposits have increased in country commercial banks during the last 20 years; demand deposits have drastically declined since 1927; and prices of securities during the past two years have receded. In some cases, the banks' holdings of acceptances and commercial paper have been too light for safety, and money has shown a tendency to flee to banks in the larger cities during this business depression. To crown the dark picture, securities have been dumped on a staggering market by



MR. ALBIG

state and national banking officials in an attempt to liquidate closed institutions. Even the security buying of life insurance companies, which might have acted as a parachute to the descending market, was diminished about one-third by loans advanced to policy holders.

The proposed changes in the range of paper eligible for discount at the Federal Reserve banks and the Reserve require-

ments of member banks may be of great value in preventing undue expansion of credit. They leave practically untouched, however, the problem of the country bank, whose plight during the past two years has brought embarrassment to many communities, great financial losses to depositors and stockholders, hoarding of money into common practice, and fear of the safety of established financial institutions into the minds of many people.

A closer scrutiny of the records strengthens the case. During the past 20 years, checking deposits in banks in the United States have increased by \$12,000,000,000 and time deposits by \$20,000,000,000. The year 1927 indicated the high tide of checking deposits and that point will scarcely be achieved again for a number of years to come. It marked the culminating point of the effort of industry to finance itself through distributing equities in the form of stock ownership. The surplus of money thus received found its way that year into banks to augment the demand deposits normally existent or created through discounts on the part of those units which had not resorted to the popular practice of financing through stock issues. Two years later this surplus fund was found on the Stock Exchange. Now it has been used in part to retire the very securities which created it.

This narrowing of demand deposits by \$3,359,000,000 or 14.6 per cent in four years, with the bulk of the reduction during the past year, would seem to restrict the loans and investments of all banks if the decrease were spread evenly throughout the country on the basis of the deposits in banks. An examination shows that the decrease has not been general but particular. Banks in large cities have increased their deposits.

Call the roll of a few states and see the situation as to demand deposits between the banks in the larger cities and others. Indiana comprises industry of many kinds. Banking deposits over the past four years in all the banks of that state have decreased 22.5 per cent, but in the banks of the larger cities they have increased from 30 per cent of the Indiana total in 1927 to 41 per cent of the 1931 total. Correspondingly, the banks in the rest of the state, which had 70 per cent of the larger state volume of 1927, had but 59 per cent of the smaller volume of 1931.

Look at New York. In that state demand deposits have decreased about \$700,000,000.—(CONTINUED ON PAGE 651)

# Bear Baiting and the Uses of Speculation

## Congress Prepares to Look Closely at the Stock Market

**I**T WAS Senator Arthur Capper, of Kansas, who first started baiting the bears in the present Congress. That was several months ago. Then the Federal administration took up the game and in due time, under presidential initiative, Senator Walcott, of Connecticut, set the Senate Committee on Banking in motion and a full-fledged and elaborate investigation of the stock market is the result.

It need not be thought that because this investigation has been some time in getting under way it will not go far. The fact is that it will go just as far as trails lead. The original idea was not simply denunciation of bears as an institution. It was the direct charge, fostered by popular feeling and given official sanction, that the bears by successive concerted raids on the market had accelerated and emphasized the fall in the prices of stocks and other securities and had caused them to reach levels

lower than they would otherwise have reached; and that continuation of these raids was preventing business recovery throughout the nation. In these parlous days that is a serious charge and if there is anything in it the country ought to know about it.

It is the irony of fate that just about the time that the Senate appointed its committee to investigate the matter the bears, for reasons of their own not connected with any investigation, commenced to drop out of the market. The short interest on the New York Exchange fell almost exactly half a million shares in January and estimates place their liquidation in February around 1,000,000 shares. With the prospect of a halt in the liquidation of stock and bond holdings by banks and others in distress as a result of Reconstruction Finance; with the liberalizing of Federal Reserve rediscount rules, a lowering of the rediscount rate and an easing of credit conditions generally; and with at least seasonal improvement in business in sight, there seems little room for further successful bear operations in the near future.

The present market is far from being a bull market. It is a market of uncertainties but the uncertainties lie more in the question of when the general rise will come than in any question of ultimate rise. With a better tone in business and prospects of improvement in the near future it is certainly not a bear market at least for the moment, and whatever changes may come are not likely to be of comfort to the bears.

In some respects it is remarkable that short selling has caused so much of a ripple in national business. Short sales form only a small fraction of the total transactions on American exchanges and short sales by way of manipulation of the market form a much smaller frac-

tion. Incidentally it may be stated that between May 25, 1931, when the New York Exchange commenced its special record of short interests in that market, and February 1, 1932, the bears bought nearly 3,000,000 shares more than they sold. To that extent they supported rather than depressed the market. However, the fact that there has been and can be manipulation in any degree is a point likely to stick in both the congressional and popular mind.

It is only natural that in a stock market which has sagged lower and lower for more than two years the effects of possible bear manipulation should be emphasized and exaggerated. One may be permitted to suspect that the many thousands of lambs shorn in the stock market collapse of 1929 and since have bleated a wholehearted welcome to the movement for an investigation. It was inevitable, however, that when the Senate committee delved into the matter it found that an investigation of the bull movements on the Exchange is just as necessary and offers quite as many possibilities.

There can be no speculation in one line without speculation in the opposite line. Hence the investigation undertaken by the Senate committee is to relate to speculation in general and particularly as to possible manipulation of the market in speculation. There will be due delving into the charges that the bears have unduly accelerated and emphasized the fall in the prices of stocks during the past year, particularly during last autumn and the opening months of the present year. There will also be the (CONTINUED ON PAGE 661)



SENATOR FREDERICK C. WALCOTT



SENATOR ARTHUR CAPPER

# Success and Thrift are Ancient Allies

Purposeful Saving Has Given the Nation  
Many of Its Writers, Statesmen,  
Actors and Aviators

By **ALLAN HERRICK**

**A**T last—a new appreciation of thrift. Out of storm and stress, a new and modern thrift movement is taking shape. Among its leaders are successful authors, artists, actors and aviators of our day. It has a new literature, rich and colorful. New psychological values have emerged in the process of applying its precepts to modern living. Already new conquests are being recorded.

During a recent and rather extended period in our history the opinion was widely accepted in certain circles that thrift was no longer an essential of successful living. People admitted that it might have some advantages for industrial workers, but as a precept to be adopted by the mass of people generally, it was antiquated. Extravagance was universal. Conspicuous waste was a commonplace. The best people spent



**CHARLES M. SCHWAB**

money as fast as they made it or faster and so many other people did the same thing that the process hardly satisfied the craving for social distinction.

In the meantime, thrift, prudence and economy fell by the wayside. To the homely sayings of Benjamin Franklin, long relegated to the past, were added those of later industrial leaders such as John D. Rockefeller, Marshall Field and Andrew Carnegie. The statements of these worthy individuals about the value of thrift and saving had won the plaudits of an earlier generation and the practice of thrift in their own lives had proved beneficial. But a new era had been ushered in, and the counsel of the old leaders received scant attention.

Now, almost overnight, public opinion has changed. Thrift is again a virtue. Statesmen extoll it. The pulpit pro-



**CALVIN COOLIDGE**

claims it. Leaders of government urge it from the platform. Articles dealing with it appear in leading national magazines and newspapers. In thrift and its various ramifications is to be found a widespread public interest that a short time ago was entirely lacking.

The attitude of the press and pulpit reflects the state of the public mind. People are thrift conscious. The housewife is proud to report successful shopping expeditions resulting in the greatest value for the least money spent. The business man announces with enthusiasm the results of his efforts to balance his budget. Conversation at luncheon clubs and civic gatherings turns to ways and means of reducing costs. Thrift has become fashionable.

Recently one of the great news services carried a dispatch to the effect that the royal princes of England had all had savings bank accounts as small boys and saved small coins in penny banks at home. The dispatch was printed in newspapers throughout America. As a matter of fact, the actual saving had been done some years previously, but it was not then of interest to newspaper readers. Now more people are concerned about saving. A new thrift movement is taking form.

The new thrift movement is distinguished by the youth and virility of its leadership. In former days statesmen, oil kings, and merchant princes led the list of those who extolled the virtues of thrift. Interesting and colorful personalities in other walks of life may have climbed to fame through prudent saving, but if so they neglected to mention it. No one knew about it. In fact, if a man made a success as a writer, artist or painter, it was taken for granted that



**COLONEL LINDBERGH**



When these British Princes were boys they had penny banks

he knew nothing of money matters.

Today, writers, sculptors, actors, artists and aviators join with bankers and statesmen in sounding the call to the new thrift. Eddie Cantor, in his book, "My Life Is In Your Hands," devotes paragraphs to the value of thrift in personal achievement. Claude C. Hopkins, advertising genius of a hundred trademarked products, tells the story of thrift in the early days on the farm that he believes led to his success. Kathleen Norris, in her story of her early life in a New York flat, finds in thrift a secret of happy living, and writes: "We lived upon our little income splendidly, saved money, and enjoyed life to the last second." In Arthur Brisbane's column appearing in many newspapers may be found thrift preachments. Billy B. Van, ex-vaudeville actor, tells from the platform how steady saving enabled him to perfect and market the new products that led him to success in a new field.

Ray Long, former editor of *Cosmopolitan Magazine*, was interviewed recently by two hopeful young people who wished to win success as writers. With illustrations from the lives of many of the great names in the literary field, Mr. Long read them a lecture on thrift that would outshine the best efforts of a savings bank president. "It was just like Benjamin Franklin," the interviewers complained. Mr. Long remarked that he, like Franklin, was an editor and publisher and that the opportunities for observation possessed by each would undoubtedly lead them both to the same conclusions.

The new thrift leaders are more colorful and interesting than the old. Their experiences are fresh and real. They draw upon the rich resources of a new

field. How George Ade and John McCutcheon saved \$10 a week each to enable them to go to Europe and to come back with provincialism sandpapered away, makes a story that is powerful in its appeal for purposeful thrift.

In the old days, stories of the rise to fame and fortune as a result of careful saving and spending were limited in scope and few in number. Many of them grew threadbare in the telling. Today, stories of the way in which thrift has aided young and aspiring men and women to reach the goals they set for themselves are everywhere to be found. From the pages of the recent biographies they shine forth in great abundance.

Willa Cather saved a sufficient amount from her salary as an associate editor of *McClure's Magazine* to enable her to leave her desk and devote her time to writing. Out of her self-denial and saving came "My Antonia," "One of Ours," "Death Comes For the Archbishop," and "Shadows on the Rock."



ALBERT PAYSON TERHUNE

Zane Grey, starting in another line and then realizing he had made a mistake, turned to thrift and for seven years worked in the summer and saved enough to write, without acceptance or encouragement, during the winter. Dean Cornwell, ambitious artist, saved the money he might have allowed to drift through his fingers, and went to Europe to study under great masters. His thrift made it possible for him to work without salary, learning the technique of the men he admired in his profession. A sister of the Wright brothers saved the money that made it possible to complete the first successful flying machine. Charles Lindbergh saved the money that took him to his first flying school, and \$2,000 he saved went toward the purchase of the "Spirit of St. Louis." So the instances go on, almost indefinitely. Thrift, thought by some to have been outgrown, has more conquests to its credit in recent times than in any like period of which we have a record.

The new thrift movement is placing great importance upon the discovery that thrift is a valuable antidote for fear. The lateness of this discovery is due to the fact that fear itself has been neglected. Everyone had fears but no one did anything about it. If we went about our work harassed by sickness and disease, we tried to cure the ailment. But if the constant fear of poverty and misfortune caused equal inefficiency, we accepted it as a visitation of Providence.

The new thrift movement is trying to measure the extent of the fear of poverty and to treat it, like poverty itself, as an enemy of mankind. Already, it has been learned that this fear is widespread.

Recently (CONTINUED ON PAGE 669)

# Will the New Taxes Hurt?

## A Discussion of the Revenue Bill in Its Original Form

By **GEORGE E. ANDERSON**

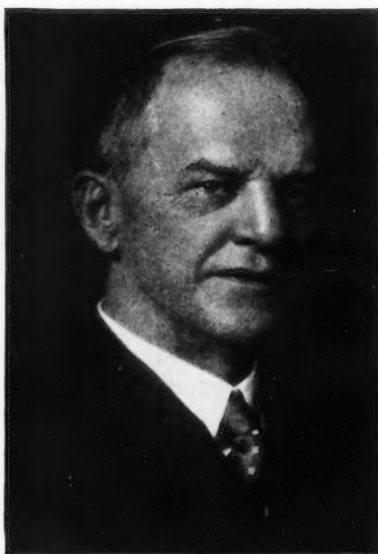
**I**T WOULD be a marvelous tax bill which would receive unanimous approval. Perhaps it is a marvelous tax bill which receives almost universal disapproval and yet will pass. "I know of only two members who favor the bill wholeheartedly," Representative Rainey of Illinois, the Democratic leader of the House of Representatives, declared upon the introduction of the new revenue measure. "At the same time I have no doubt whatever of its passage." "They'll vote for the bill all right," Representative Snell of New York, Republican leader, said.

The philosophy back of the declarations is impeccable. There would be opposition to some features of any general tax bill. The theory of the leaders of the House of Representatives is that while nearly all members of Congress oppose some features of their bill the measure as a whole is the best that can be devised under present business and political conditions and ultimately will receive more general support than any alternative measure.

Nearly all legislation is a compromise between opposing interests. A tax bill is preeminently a compromise. Just at present there can be little temporizing or argument about it. The country must balance its budget to save its credit and start business upon the road to recovery and to do so it must have the money.

Aside from the ever present question as to the effect of the new taxes upon one's own pocketbook the prime question to be considered is their effect upon business as a whole. The new taxes are expected to produce \$1,096,000,000 in the next fiscal year in addition to current revenue. Naturally they will have just that much effect upon business, some way, some how.

Taking that amount of money from the people of the country by new means or by old means under a new form or degree is bound to have some direct unfavorable effect upon business. The problem in the matter has been to minimize the unfavorable features as much as possible.



**Representative Charles Crisp of Georgia, a member of the House Ways and Means Committee**

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*Practically the issue has been narrowed down at the time this is written to the question of whether it is better to raise the necessary funds by a general levy such as the manufacturers' sales tax or to attempt to raise it by special taxes on a few commodities, persons or services.*

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The manufacturers' sales tax has been the real issue for two reasons. In the first place it is the backbone of the Ways and Means Committee's measure because it is expected to raise \$595,000,000 or nearly 60 per cent of the new revenue required and the committee plan survives or perishes on the basis of this tax. In the second place it is, in its present form, a new tax in the United States.

The Canadian experts who have advised the House committee in its draft of the bill state that the form adopted is an improvement upon the Canadian bill. The bill imposes a tax of  $2\frac{1}{4}$  per cent on all manufactured products as

they leave the hand of the manufacturer or as they are imported, in both cases as they are ready for the ultimate consumer. An exception is made of farm and garden products and most ordinary food products not specially processed. The tax adds to the cost of processed foods, canned goods and the like but the addition of perhaps 3 per cent gross to the wholesale price of these goods probably would not seriously affect either consumption or the consumer.

Under the tax a suit of clothes costing the wholesaler \$20 heretofore will cost \$20.45 hereafter, perhaps adding twice that increase to the retail price. The consumer will see the tax, know he is paying it to the Government but as between the old and the new price he is not likely to hesitate much in buying a suit. Perhaps this same principle will run into the higher figures. A young lady buying a \$200 fur coat is not likely to hesitate much as between \$200 and \$209 or thereabouts. But when it comes to such purchases as automobiles, will the principle remain the same? On a thousand-dollar car the tax paid by the manufacturer is \$22.50,—probably a little more in the retail price of the machine but also probably not enough to stop the sale of the machine. Nor is a person who is able to afford a \$2,000 automobile likely to hesitate over a tax of \$45.00 or a little more. The tax, after all, is only a small proportion of the cost of an article. It rises as the cost rises and presumably can be as easily paid by the purchaser of a high priced article as by the purchaser of a more modest article.

The opponents of the general manufacturers' sales tax would have the purchaser of the higher priced articles pay more in proportion, say a hundred dollars instead of fifty dollars on a \$2,000 automobile, on the theory that the purchaser of such a machine can better afford the hundred dollars than the buyer of a \$1,000 machine can afford \$25.00. This is another form of "making the rich pay." But experience has shown that the higher proportional tax

on what may be regarded as luxury machines may have the result of turning the buyer to lower priced machines and thus defeat the object of the tax as well as unfavorably affect business in the higher priced machines. Higher proportional rates on higher priced goods tend to narrow the basis of the tax, render it more subject to great fluctuations. Hence from a revenue standpoint as well as from a business standpoint, the uniform tax is the better plan. In view of the higher taxes imposed upon the well-to-do in other lines, especially the surtaxes on larger incomes, a uniform sales tax is fairer.

Aside from the manufacturers' sales tax and the possible substitution of other excise taxes therefor there are provisions which would have been incorporated in any bill. All the authorities have been agreed as to higher income tax rates. The only popular feature of the new income taxes is that they are not to be imposed until next year, i.e., they will be collected a year from now on presumably reduced in-



Representatives Henry T. Rainey and Bertrand H. Snell, Democratic and Republican Leaders in the House

comes earned during the current calendar year and payable at a time when, presumably, the tax payer will be better able to pay them. Such, at least, is the tax payers' expectancy.

The rates on individual incomes are raised from 1½, 3, and 5 per cent to 2, 4, and 6 per cent while exemptions for married men are reduced from \$3,500 to \$2,500 and for unmarried persons from \$1,500 to \$1,000. The surtaxes run as heretofore forecasted, reaching a maximum of 40 per cent on incomes above \$100,000 or twice the present rate, but they do not commence until the class above \$10,000 is reached. Opponents of the sales tax have proposed, as part substitute for that measure, that the tax on incomes above \$100,000 be graduated up to 49 per cent on incomes above \$1,000,000. In either case the earned income basis is reduced from \$20,000 to \$12,000 and it is provided that 12½ per cent shall be deducted from gross earnings instead of 25 per cent from net tax as at present.

(CONTINUED ON PAGE 658)

*Consider the situation facing the country. The actual revenue collected in the past two fiscal years and the estimated revenue for the current year and the next fiscal year on the basis of the new taxes are as follows:*

	ACTUAL RECEIPTS		ESTIMATED RECEIPTS	
	1930	1931	1932	1933
Corp. income tax .....	\$1,118,000,000	\$ 892,000,000	\$ 517,000,000	\$ 382,000,000
Individual income tax .....	1,061,000,000	730,000,000	339,000,000	275,000,000
Back income taxes .....	232,000,000	239,000,000	220,000,000	210,000,000
Misc. internal revenue .....	628,000,000	569,000,000	526,000,000	550,000,000
Customs .....	587,000,000	378,000,000	375,000,000	430,000,000
Misc. receipts .....	552,000,000	509,000,000	265,000,000	528,000,000
Total receipts .....	<u>\$4,178,000,000</u>	<u>\$3,317,000,000</u>	<u>\$2,242,000,000</u>	<u>\$2,375,000,000</u>
Expenditures .....	<u>\$3,994,000,000</u>	<u>\$4,219,000,000</u>	<u>\$4,482,000,000</u>	<u>\$4,113,000,000</u>
Surplus .....	184,000,000	.....	.....	.....
Deficit .....	.....	902,000,000	2,240,000,000	1,738,000,000

*Note the drop in the individual income tax, even under the proposed levy. The estimates for the next fiscal year are based upon the sales tax and also include some \$225,000,000 or so due the United States in European intergovernmental war debts.*

## The Reconstruction Workshop

(CONTINUED FROM PAGE 619)

of the whole thing depends largely on the discretion and judgment of the seven men who are directors, and this is why current acts and policies-in-the-making are so important. Risks may be taken and are being taken, as in all banking. The risks are greater than would be proper or permissible in private banking, but in the end, they may be washed out by wise administration and by the magnitude of the public undertaking.

Borrowers fall into these main classes:

(1) Going banks, building and loan associations, etc. (2) Closed banks. (3) Insurance companies. (4) Agricultural credit agencies, such as mortgage companies (both public and private), intermediate credit banks, and local credit associations. (5) Railroads. (6) Farmers, direct.

Private industrial or commercial companies may not borrow direct from the Government corporation, but they may borrow from their respective banks, which under certain circumstances may pass the loan along to the Government.

Cities may not borrow direct, but there is nothing in the law to prevent them from obtaining indirect assistance through their banks, if the circumstances justify. This point has not yet actually been at issue.

Railroads may borrow for two main purposes, either to meet maturing obligations for temporary financing, or for construction purposes.

Farmers may borrow through the Department of Agriculture only in small amounts for production purposes, and the administration is such that the loans go mainly to farmers who had crop failures last year.

The Reconstruction Finance Corporation has not announced many policies specifically. Some may be inferred from various and sundry acts, and some are matters for future speculation.

I shall attempt in the following to throw a bit of light on the policies of the Corporation to date, with the clear understanding that the statements are not "authorized." They are based on study of the law itself, plus study of various isolated acts, plus guarded discussions with the administering officials.

The law imposes a minimum of restrictions. The only important guide is the requirement that loans must be

The directors meet every afternoon,—all of them. Seated about the long, imitation mahogany table, they take each case and study it. They thumb through the papers. They talk and argue and scratch their heads. They approve, or revise, or disapprove. Most applications have been well sifted by the processes down below.

"fully and adequately secured." This means much or little, and it depends absolutely on the judgment of the administrators.

The facts seem to be that all loans to date, especially to banks and other financial institutions, have been quite fully and quite adequately secured. Collateral has ranged between 50 per cent and 100 per cent more than the amount of the loan. This in itself does not prove anything, for the item-by-item value of the collateral cannot be judged by any outside observer. But I have gone over the collateral on a number of loans, as reported to me by the borrowers (not by the Corporation), and as a layman with limited banking training I have the impression that the loans are well secured. I have even listened to complaints that the Corporation was a "hog" for collateral.

The collateral is of all kinds,—cus-

The question at this stage is: How well is the job being done? Without meaning to puff or praise or talk rubbish, let me say that it seems to me the job is being done exceedingly well, that the results to date are overwhelmingly good, and that the dangers inherent in the whole scheme have been minimized by careful administration. The object of this discussion is to explain briefly what is being done, and how; also to express a few unauthorized opinions on what may be done in the future.

tomers' notes, mortgage notes, bonds, everything that comes to a bank in its usual dealings.

There is no set of specific rules on collateral. Each case is considered on its individual merits. A greater amount of collateral is required on some than on others. There are no fixed "percentages." There is no formula for determining the value of bonds for loaning purposes. The Corporation does not specifically "mark them up," though in many cases it does recognize the probability that their market value at the maturity of the loan will be higher than their current market value. This is implied by the whole Reconstruction plan, for if this were not true, then the plan would be essentially a failure. Practice and procedure necessarily are based on the assumption that it will be a success.

There have been some disputes within the Corporation over general policy on collateral. One unspecified director who in fact is in a position of dominance over the mechanism and personnel, has leaned to a policy of strictness or tightness. "He wants to collect." Another unspecified director of national and international prominence has leaned to a policy of relative liberality. Neither leaning is extreme. The policy clash has been the subject of some whispering, but in so far as I have been able to appraise the situation, it seems good rather than bad. It is a safeguard. It suggests a balance between the need for putting out the fire, and the need for conserving the public water supply.

There has been a great public demand for information on how the Reconstruction Corporation is appraising mortgages which are or may be offered as security for loans. It is impossible to state any flat rule, for there is none. It is my impression, based on somewhat fragmentary information, that the Corporation has been distinctly tight on mortgage loans. Real estate is one of the dark spots in the general business picture, and the Reconstruction Corporation probably has no intention of trying to clear up any considerable proportion of the financial debris in the real estate situation.

Some banks have been aided, and some building and loan associations have been eased, but the Government support for the real estate market probably must come through a general relaxation of credit rather than through any great volume of Government loans on real estate mortgages.

It is unquestionable that Reconstruction loans, (CONTINUED ON PAGE 644)

# Events and Information

## WITHIN THE ASSOCIATION

**T**HE Spring meeting of the Executive Council of the American Bankers Association will be held April 25 to 27 inclusive at the Greenbrier Hotel, White Sulphur Springs, West Virginia. The usual four-day session will be compressed into three days, the meeting this year ending on Wednesday evening instead of on Thursday as previously.

Coming at a time when the constructive legislative program of the current session of Congress has provided the country with new measures of far-reaching importance to meet present emergencies, the meeting assumes added importance for bankers generally. Particular interest will center in the Council's review of the policies adopted by the Interim Committee on legislation affecting banking, and these will include thorough discussions of the Reconstruction Finance Corporation, the Glass-Steagall Act, the proposed Glass banking bill, and the Steagall Bill providing for guaranty of deposits. Bank failures, the promotion of scientific bank management, more effective clearinghouse operations and other topics will also come up for discussion.

The activities on Monday will be devoted to final preparation of reports on proposals to be submitted to the Council, and these will be completed in committee meetings to be held throughout the day and evening.

The Council sessions will be held on Tuesday, April 26, at 9:30 A.M. and 8:30 P.M., and on Wednesday, April 27, at 9:30 A.M. Harry J. Haas will preside and will report as President of the Association and also for the Administrative Committee. Executive Manager Fred N. Shepherd, Treasurer P.D. Houston and General Counsel Thomas B. Paton will submit their reports, to be followed by the reports of the various commission and committee chairmen.

Successively through the sessions the presidents of the divisions and sections will be heard—Henry J. Mergler of the Fifth Third Union Trust Company of Cincinnati, for the American Institute of Banking Section; W. Walter Wilson,

### Executive Council Meeting

#### Trust Conferences

#### Trust Proceedings

#### Bank Budgeting

#### Banker-Farmer

president of the First Milton National Bank of Milton, Pa., for the National Bank Division; Jay Morrison, vice president of the Washington Mutual Savings Bank of Seattle, for the Savings Division; Felix M. McWhirter, president of the Peoples State Bank of Indianapolis, for the State Bank Division; Paul P. Brown, secretary of the North Carolina Bankers Association, for the State Secretaries Section; and Thomas C. Hennings, vice president of the Mercantile-Commerce Bank and Trust Company of St. Louis, reporting for

**The work of the Federal Legislative Committee of the American Bankers Association in recent weeks concerns matters of extreme importance to all banks. Chief among these is the recrudescence of various deposit guaranty schemes. At the present time there are bills before the two houses of Congress attempting to establish guaranty funds in one form or another. Thomas B. Paton, General Counsel of the Association, in an article appearing in this JOURNAL, shows the fundamental error of such efforts in the past and their consequent futility.**

the Trust Division of the Association.

Exhibits of the savings advertising and new business service prepared for Association members by the committee on savings promotion of the Savings Division, and the "Building Trust Service" Plan prepared by the committee on publicity of the Trust Division, will also be on display.

About 300 bankers including members of their families are expected to attend. Special trains on Saturday, April 23, will leave Chicago at 1:00 P.M. and New York City at 5:50 P.M., arriving at White Sulphur Springs at 7:30 A.M. and 7:13 A.M. respectively, on Sunday.

Members of the Executive Council attending the Spring meeting will also be afforded an opportunity to attend at special reduced rates the Fifth Southern Trust Conference to be held at Nashville, Tennessee, April 29 and 30. Delegates from practically all eastern points may go to Nashville via White Sulphur Springs for less than it would cost to go direct to Nashville and return.

Bankers planning to take advantage of this reduced fare plan should advise the Secretary of the Trust Division in order that proper notification may be sent to the various railroad ticket agents, thereby avoiding any difficulty in purchasing tickets at the reduced rate.

### TRUST CONFERENCES

THE Fifth Southern Trust Conference held under the auspices of the Trust Division of the American Bankers Association will be held at Nashville, Tennessee, on April 29 and 30. Announcement was made recently by Thomas C. Hennings, President of the Trust Division. The program and speakers will give special attention to trust investment problems and policies.

For those bankers planning to attend both the Spring Council meeting at White Sulphur Springs, West Virginia, and the Southern Trust Conference which follows, special attention is called to the reduced rates from all eastern points. (CONTINUED ON NEXT PAGE)

## Events and Information

(CONTINUED FROM PRECEDING PAGE)

Details of this arrangement will be found in the Council meeting announcement on page 635.

The Southern Trust Conference region embraces the states of Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, Tennessee, North Carolina, South Carolina and Virginia. Nashville bankers' committees and their chairmen handling arrangements are: conference committee, E. E. Murrey, vice-president, Nashville and American Trust Company; committee on reservations and registrations, Charles F. Lovell, vice-president and trust officer, Commerce Union Bank; committee on transportation, Clarence Potter, vice-president and trust officer, Broadway National Bank; committee on entertainment, E. J. Walsh, vice-president and trust officer, Third National Bank; committee on arrangements and program, D. C. Lee, assistant secretary, Nashville and American Trust Company; and committee on publicity, Charles W. Wetterau, vice-president, American National Bank.

THE tenth regional trust conference of the Pacific Coast and the Rocky Mountain States will be held September 29-October 1 in Los Angeles, and will immediately precede the annual convention of the American Bankers Association on October 3 to 6. The Trust Conference region embraces the states of Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.

### TRUST PROCEEDINGS

THE Proceedings of the Thirteenth Mid-Winter Conference of the Trust Division of the American Bankers Association, which was held February 16-18 in New York City, has just been published and represents a departure in size and format from previous issues of these publications. The book is in convenient bookshelf size and is indexed for ready reference by trust officers and others engaged in fiduciary work and by students and libraries. It also includes a cumulative index published for the first time and covering all Trust Division Conference proceedings issued since 1923.

The book contains the 21 addresses delivered during the February Conference together with the discussions that followed in the meetings, and the two

speeches given at the Twenty-First Annual Banquet at the close of the conference. These give many specific suggestions for the solution of difficult problems confronting trust officers as a result of the changed financial and economic conditions of the past two years.

Leading subjects covered include various phases of the proper investment of trust funds, accounting and fees, new business development and public relations, the cooperation of trust companies with the bar, life insurance trusts, and the place of the modern trust institution in our economic and financial structure. Three subjects more technical in treatment include the statutory powers, duties and responsibilities of trustees together with the text of a tentative draft of a proposed "Trustees Act"; definite information as to needed reforms in our laws of descent and distribution; and an outline of the progress being made by cooperating committees of the general conference of commissioners of uniform state laws, and of the Trust Division of the American Bankers Association, toward gradual improvement of the various state laws regarding trusteeships.

Copies of the new Proceedings can be obtained from the Trust Division of the American Bankers Association. (216 pp. \$2.)

### BANK BUDGETING STUDY

A PLAN of outstanding importance that will keep constantly before the management of a bank every usable and determinable fact affecting the bank's operations is nearing completion and is soon to be released to members of the Association by the bank budget and accrual committee of the Bank Management Commission. It is hardly necessary to add that the report and plan will put into concrete form the results of an exhaustive survey that has been under way for some time.

The report recognizes service, liquidity and profit as the three fundamentals of sound and safe banking, but it realizes also that service has been oversold by many bankers at the cost of liquidity and the constant diminishing of profit. Therefore, the committee has dealt primarily with the latter two factors and in doing so the members urge the development of a control board capable of flashing danger signals to the man watching it as rapidly as undesirable

conditions occur. If caution signals can be flashed before the area of danger has been reached, then this is even more desirable. The development of this control board in the report is based upon:

1. Budgeting Funds,
2. Budgeting Income and Expense, and
3. Accrual Accounting,

and it is in this order that the detailed plan will be presented to bankers.

In order that the plan may be of use to the greatest number of institutions, it has been developed primarily for banks with resources of \$10,000,000 or less. The principles of bank budgeting as set forth, however, can be followed profitably by every bank regardless of size.

The suggested budget of funds, budget of income and expense, and the accruals are set up on a monthly basis, because this was found to be more desirable as it involves a minimum of effort and still provides a basis of comparison sufficiently current to permit the remedying of unsatisfactory conditions and at the same time to show variations and trends so that their importance and effect can be readily seen and appreciated. With large banks, of course, daily accruals and frequently the daily budgeting of funds are desirable.

### BANKER-FARMER

A DIRECTORY of the county key bankers and the agricultural committees of state bankers associations, who are cooperating with the extension service of the various colleges of agriculture and with the Agricultural Commission of the American Bankers Association, has been published by the Commission.

The publication also outlines a plan which is efficient and free from duplication of effort, and which ties closely together the two organizations best fitted to cooperate with and to encourage farmers—namely, the bankers and the extension personnel of the state colleges of agriculture. A brief summary of banker-farmer activities for one year shows that \$106,000 was expended by bankers for agricultural improvement, and as many as 38,558 bankers participated in agricultural meetings where bankers and farmers became acquainted and learned each other's problems. As a result of the plan outlined in the directory, 8,000 farm folk were enlisted in a better farming program.

The work of the Agricultural Commission of the Association is of great importance, providing mutually valuable points of contact between bankers and farmers.

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The Recordak representative can give you facts and figures. He'll tell you definitely the amount of clerical duplication of work, machines, stationery and space you can save by using Recordak to photograph statements—accounting records—transit checks—file items.

He'll show you also how Recordak gives real protection against check frauds, avoids misunderstandings with customers,

### TYPICAL SAVINGS

#### *Bookkeeping Department*

Savings of

- 33⅓% in Labor
- 40% in Machine Equipment
- 50% in Stationery

#### *Transit Department*

A Saving of

- 40% in Operating Cost

#### *Filing Department*

Savings up to

- 90% in Storage Space

#### *Fraud Protection*

Real protection against check fraud. Saving of registry and messenger fees.

### *A Few Users*

Chase National Bank  
New York City  
National City Bank  
of New York  
Bank of America, N. T.  
& S. A., San Francisco  
First National Bank  
of Boston  
Atlantic National Bank  
Boston  
Pennsylvania Company  
Philadelphia  
First National Bank  
Pittsburgh  
Girard Trust Company  
Philadelphia  
Union Trust Company of  
Maryland, Baltimore  
Harris Trust & Savings  
Bank, Chicago  
Farmers and Merchants  
National Bank  
Los Angeles  
Clinton Trust Company  
Newark, N. J.  
Trade Bank  
New York City  
Security State Bank  
Madison, Wis.

and provides legally acceptable duplicates when original items are lost.

And he'll explain how your bank can enjoy these economies and this protection without one cent of capital investment—merely a small rental charge that is more than offset by immediately effected economies.

You incur no obligation by taking advantage of the Recordak representative's services. Get all the facts. Fill in and mail the coupon now.

# Recordak Corporation

*Subsidiary of* EASTMAN KODAK COMPANY

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“One of the  
best steps we  
have taken

to make our  
bank a modern  
institution”



That is the way a California bank refers to its installation of National Posting Machines at the savings windows. And bank after bank throughout the country feels the same way.

“Gone forever is the possibility of even one cent difference between passbook and ledger. Results obtained are not approached by any other method of handling accounts” . . . says The Buffalo Savings Bank, Buffalo.

“Our depositors like it because the entries in their passbooks are neatly printed, uniform and easy to read. From an auditing standpoint this machine is an improvement on any system for the savings department that we have seen.” . . . First Seattle Dexter Horton National Bank, Seattle.

“On improved service alone, the machines have more than justified their installation,” comments Farmers

and Mechanics Savings Bank, Minneapolis.

“With this installation the average transaction is completed in a fraction of the time formerly needed and we have, in addition, a complete mechanical check.” . . . Provident Institution for Savings, Boston.

Three original printed records at one operation . . . separate sets of totals for each of two tellers, printed figures instead of written . . . these are some of the advantages that only this machine can give. The National Cash Register Co., Dayton, Ohio.

*National*

POSTING AND ACCOUNTING MACHINES

# The Condition of BUSINESS

**C**LEAR signals were visible during the month that important results were following from the coordinated plans of public agencies and private finance to bring about basic improvement in the condition of business. As for some time past, immediate stimulations in current commercial and industrial activity were lacking and favorable trends in standard trade indexes were not apparent. The growth in financial confidence and the decrease in public fear, however, were too definite to be based on anything but solid facts and carried greater weight than formal statistics.

A concrete expression of a return of financial confidence was given in the course of events in the bond market. Here for the period of the 23 business days between February 10 and March 11 there was an unbroken daily advance, with one minor exception, in the average price for 40 representative issues. This was followed by an interval of some irregularity and slight reaction in prices, but apparently, as late as March 17, this did not reflect a change of sentiment. Also, during this period of rising prices, the volume of trading was materially greater than in the period of reaction that preceded it. A third significant feature was that, whereas during the previous weeks the initiative for market activity had come from sales by eager or forced sellers, in recent weeks it has come from discriminating purchasers convinced that the time for investment opportunity was at hand. These developments in the bond market, therefore, represented more than merely a technical record of dealings in this particular field. In the special nature of current conditions, they evidenced a relaxation in the pressure of financial distress and fear, and a turn in the direction of safety and confidence.

## THE BANKING MEASURES

LOOKING beyond this technical record into the nation's actual working scenes, the most important aspect of business betterment revealed was the

widespread return of the banks to more normal operating conditions. The co-operative arrangements developed for the orderly marketing of the securities of closed banks, the functioning of the Reconstruction Finance Corporation in relieving by means of loans both closed and operating banks from the necessity of forcing securities on the market, and the enabling of the Federal Reserve banks to extend broader rediscount co-operation to member banks as a result of the Glass-Steagall Bill, were clearly having the desired effects.

## THEIR HELPFUL EFFECTS

THESE effects were two-fold. On the one hand, by assuring banks of facilities for supplementary credit if needed, they lightened the pressure on them of maintaining an abnormally liquid position by the curtailment of loans to customers or by sacrifice sales of securities—and this latter was a material factor in the stability noted in the bond market. On the other hand the depositing public was assured that effective means had been found for protecting the banks against the heretofore uncontrollable influences that were in some cases paralyzing their ability to function normally, and the resulting subsidence in public fear was manifested by a sharp drop in withdrawals of deposits and bank runs.

Concrete evidence of these various betterments in the banking situation was presented in two lines of figures. One was the record of bank suspensions. During the four weeks ended January 28 there were 327 suspensions, an average of almost 82 a week; during the four weeks ended February 25 there were only 133, an average of but 33, and during the period since then covered in this review they were averaging but 11 a week according to unofficial figures.

A second significant indication of returning public confidence in banking was given by the subsidence in hoarding as recorded in the figures for currency in circulation. Contrary to statistical seasonal trends there was an unbroken

decrease in these figures each week from February 3 to March 16, the total decrease running in these six weeks to the substantial sum of \$109,000,000.

Of equal importance with these major readjustments developing in the domestic financial mechanism were the very significant re-alignments which, it became apparent during the month, were taking place in the world's gold situation. They were manifestly such as to promote a return to the gold standard by those nations which have temporarily abandoned it and also to strengthen the security of the United States against the enforced suspension of gold payments which was seriously feared during the darker days of the depression.

## THE GOLD SITUATION

GOLD has been accorded an important place in the worldwide business reaction that began in 1929. Falling prices, credit stringency and depression, according to this view, were in part due to physical deficiency and technical maldistribution in the gold supply available for monetary reserves. The deficiency was attributed to the failure of the world's mines to turn out enough new gold to take care of industrial requirements for the metal and also the enlarged needs of the world's currency systems to enable them merely to keep step with the normal expansion of trade, let alone the inflation that obtained. For several years world gold output had averaged only about \$400,000,000 a year, of which perhaps \$100,000,000 was absorbed in the arts. Of the balance another \$100,000,000 a year was drawn into India's treasure hoards, supposedly forever lost to monetary use. These conditions were accentuated by a somewhat sharp drop in production in 1929.

As to maldistribution, it was pointed out that although the world's active monetary gold reserves nominally totalled approximately \$10,000,000,000, more than \$1,000,000,000 of this amount actually was lying idle,—“sterilized” as it was called,—in the Federal Reserve banks in this country by reason of the fact that they held this amount and more in excess of the sum really required, and fully sufficient, as reserve against currency. The practical effect of this was held to be the same as a decrease of the world's monetary gold by that much in so far as immediate economic usefulness was concerned, whereas the great need of the hour was an increase. During 1930 the total monetary (CONTINUED ON PAGE 647)

(CONTINUED FROM PAGE 618)  
field of business. They have without exception been based on the thorough investigations and comprehensive studies for which the organization is noted. The report on bank personnel programs fell far short of anything ever before issued from this press—not because the investigators had not dug up every bit of material, but rather because there was not enough material to be dug up by an investigator who had not lived with the problem as his daily job for years.

It is a conservative assertion that in no phase of banking is our industry so backward as in handling the employees who are one of our major problems. If we had made no greater progress in our other activities, we should still be keeping books in longhand, we should still hesitate to ask a customer for his statement lest we hurt his feelings, we should be about 50 years behind the present stage of progress.

The principal reason why almost everything published and spoken on bank personnel subjects contains too much straw and too little oats is that bankers neither understand the personnel function nor are interested in it. From the investigations that our bank's personnel specialists have made during the past dozen years, it seems safe to state that not more than half a dozen banks in the United States have really well-planned, well-executed personnel programs that are functioning as profitably as the personnel programs of literally hundreds of industrial organizations. There cannot be more than half a dozen, for we know of only three.

Banks have made so little progress in this profitable field chiefly because of the type of man who is almost invariably responsible for the bulk of the workers in the bank. This executive is so typical, so universal, that anyone who has met half a dozen can recognize an additional specimen even in a Pullman smoker. His title may be chief clerk or comptroller or assistant cashier or vice-president in charge of operating, or what not. He came up through the clerical ranks from the very bottom.

While he was on the way up, he experienced none of the attentions of a personnel department, so has had no first-hand demonstration of the profit possibilities of such an activity. He has never been interested in the subject, he has not bothered to read anything on the subject or to attend any meetings—which are necessarily dominated by industrial and commercial groups—where

In improving both the standard of judgment among employees and the across-the-counter service to the public, results can be seen and measured within two years. But it takes a great deal longer to reach the maximum.

Building up the personnel of a bank must be a hand-picking process which cannot be done too painstakingly. It must come over a period of years, and because young employees are the most easily inculcated with the right spirit, it takes some years to develop the raw youngsters to the capabilities for handling the larger jobs where these qualities are most important.

personnel work is discussed as the scientific, money-making activity that it has become. Why should he, he inquires. For he has two misconceptions that are almost impossible to remove: First, he thinks personnel work is a semi-philanthropic activity; Second, he is sure that banking is different from any other kind of business and that his own bank is different from every other bank. No

doubt his complacency arises from the fact that his imagination was smothered under routine before he got to his present job.

The picture has been drawn in admittedly strong strokes, but no stronger than it deserves. Strong strokes are necessary to shock some of these folks into seeing themselves as they really are. For until they get over thinking about personnel work in terms of the old-fashioned, paternalistic "welfare" which was pretty thoroughly discredited even before the World War, and in terms of the highly professional welfare workers who made more fuss about the approach and the procedure than they gave attention to dollars-and-cents profits, they are effectually blocking their institutions from a very large source of profit. For no banker can ever afford to forget that expense-saving is profit, that an expense eliminated for all time is a recurrent profit year after year.

Properly conducted personnel work—there is no excuse for any other kind of personnel work—contains no element of sentimentality or of a kindly, noble heart. It is just as cold-bloodedly profitable to handle personnel intelligently as to handle loans and discounts competently. The past 18 months have seen employees working enthusiastically to hold their jobs. But even so, it is probable that the preventable loss from faulty handling of bank employees was second only to the losses during this period from sour (CONTINUED ON PAGE 673)



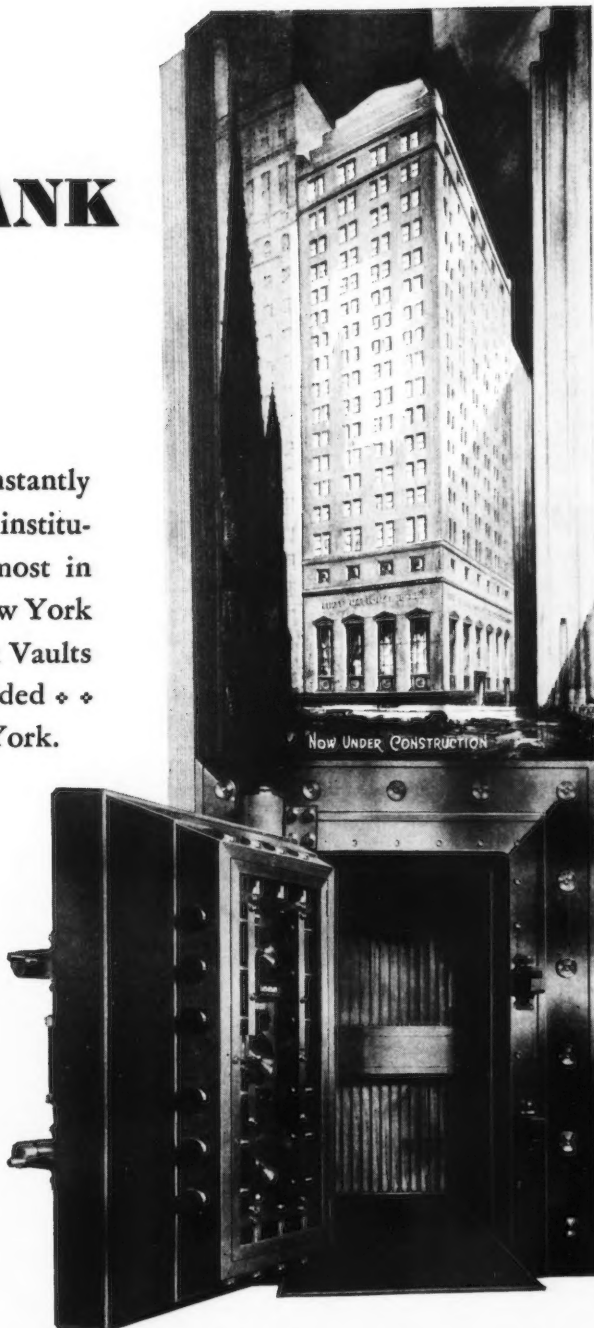
Personnel work is not philanthropy. An unemotional adding machine will show the profits in dollars and cents

# THE FIRST NATIONAL BANK OF NEW YORK

◆  
The great streams of money that constantly flow through the gigantic financial institutions of New York demand the utmost in protection. To the imposing list of New York banks that enjoy the security of York Vaults another important name is now added ♦ ♦

The First National Bank of New York.

◆  
Regardless of its size, your bank, too, can enjoy the same skill and experience in vault construction that have made the name of York preeminent throughout the world. We will gladly confer with you regarding the type and size of vault your bank requires.



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MANUFACTURERS AND BUILDERS OF THE WORLD'S GREATEST VAULTS

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— FIRE AND BURGLAR PROOF SAFES AND CHESTS —



# TOO LATE!

**I**T happened—like that! Quick. No warning. Such things always do. Too late now to think of the simple rule of good driving that was violated.

Safe driving is merely a matter of judgment tempered with a little restraint and consideration. Yet it is remarkable what happens when a large group of drivers become interested in driving safely.

An interesting example of this is the experience of the millions of car owners who are insured in *mutual* casualty companies. Among this large group of policyholders accidents have been considerably reduced because mutual companies have explained the need, outlined methods and indicated the practical benefit.

Reduction of accidents has reduced losses and this saving has been passed

on directly to mutual policyholders in dividends—20% to 30% of the premium returned year after year—millions of dollars annually!

Substantial reduction of cost—and sound, unfailing protection have made *mutual* coverage the preferred form to thoughtful and experienced buyers of casualty insurance. This is evidenced by the fact that a large percentage of the great industrial corporations of the country have long since joined the ranks of mutual policyholders.

An understanding of the principles and operation of *mutual* casualty insurance is of practical interest to automobile owners, manufacturers, retailers. Write today for an interesting booklet, to the National Association of Mutual Casualty Companies, Room 2100-C, 230 North Michigan Ave., Chicago, Ill.



## Stability of Mutual Casualty Companies

The *mutual* plan of insurance is older than any other. 180 years of successful operation has demonstrated its fundamental soundness. The Association Companies listed below are established leaders. The members of the National Association of Mutual Casualty Companies have a combined premium income in excess of \$75,000,000; cash assets of over \$105,000,000; and have returned to policyholders in dividends during the ten year period, 1921 through 1930, a total of \$97,899,199.

For any casualty risk *mutual* insurance is the safest, soundest and most economical protection.

## Mutual Protection Is Available for These Casualty Risks:

ACCIDENT AUTOMOBILE (all forms)  
BURGLARY AND THEFT FIDELITY  
LIABILITY (all forms) PLATE GLASS  
PROPERTY DAMAGE  
WORKMEN'S COMPENSATION

# MUTUAL CASUALTY INSURANCE

## An American Institution

*These Old Line Legal Reserve Companies are Members of NATIONAL ASSOCIATION OF MUTUAL CASUALTY COMPANIES and AMERICAN MUTUAL ALLIANCE*

(American) Lumbermens Mutual Casualty Co., of Illinois,  
New York City  
American Mutual Liability Insurance Co., Boston, Mass.  
Builders Mutual Casualty Co., Madison, Wis.  
Central Mutual Casualty Co., Kansas City, Mo.  
Employers Mutual Casualty Co., Des Moines, Ia.  
Employers Mutual Liability Insurance Co., Wausau, Wis.

Exchange Mutual Indemnity Insurance Co.,  
Buffalo, N. Y.  
Hardware Mutual Casualty Co., Stevens Point, Wis.  
Interboro Mutual Indemnity Insurance Co.,  
New York City  
Jamestown Mutual Insurance Co., Jamestown, N. Y.  
Liberty Mutual Insurance Co., Boston, Mass.

Lumbermens Mutual Casualty Co., Chicago, Ill.  
Merchants Mutual Casualty Co., Buffalo, N. Y.  
Michigan Mutual Liability Co., Detroit, Mich.  
Mutual Casualty Insurance Co., New York City  
Texas Employers Insurance Association, Dallas, Texas  
U. S. Mutual Liability Insurance Co., Quincy, Mass.  
Utica Mutual Insurance Co., Utica, New York

## Banks and Cities

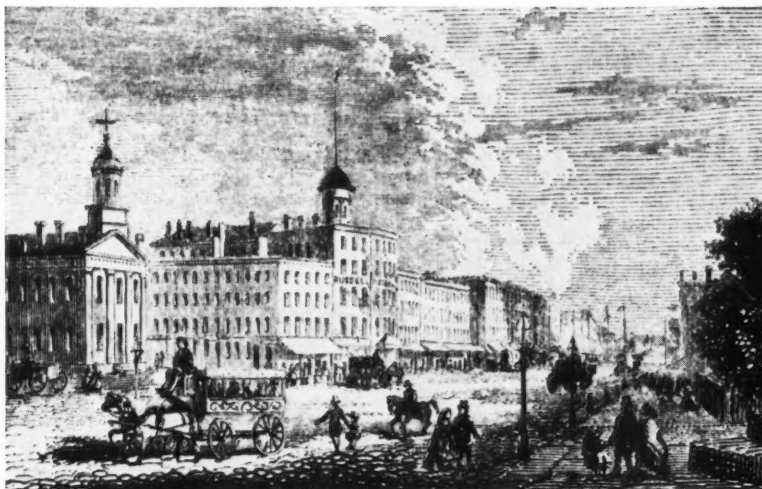
(CONTINUED FROM PAGE 617)

country, Michigan started on a land boom, which was encouraged by the deposit of government funds in the states. In the decade before 1837, Detroit quadrupled its population and became a hustling town of 8,000.

Between 1835 and 1837 the Michigan legislature authorized 66 state roads, two canals, 11 railroads, and nine banks. Ten freeholders in a county were permitted to establish a bank.

Then came the crisis of 1837, which was augmented by the withdrawal of the Government deposits and the demand that land should be paid for in specie. Land values and public improvement shares went down in a crash and thousands of reputedly wealthy men were ruined. Along with all the other western banks, those of Michigan suspended specie payment, and the suspension was legalized by the state.

There was very little understanding at the time of the necessity of both liquid and solid assets as a foundation for sound banking, and even if there had been, quick assets were scarcely to be had. As previously noted, there was but little specie in the country for the



At the Beginning of the National Bank Era

purpose. Stocks were but partially developed, and, in the absence of stock exchanges, were not the ready assets they are at present. Land, which some of the banks endeavored to use as a basis of circulation, went down most of all, and, when money was needed the worst, land was practically unsalable.

After the crisis of 1837 came the railroad era. Michigan had to struggle to do something with its projected internal

improvements, and, after dropping most of them, in 1846 sold the Michigan Central and Michigan Southern railroads to private corporations. By strenuous efforts and with the help of the Detroit banks and several local banks formed for the purpose, both roads were carried through to Chicago in 1852.

The Farmers' and Mechanics' Bank had resumed business in 1845 and with the Michigan State Bank, incorporated in 1835, the Michigan Insurance Company, opened in 1838, and the Peninsula Bank, chartered in 1849, took the forefront in financing developments before the Civil War.

Besides the various railroads, a number of important factories were being developed in the city, or were moving to it, and required financial accommodations. Iron and engine works were established in Detroit in 1851, the building of large ships the next year, a car plant the year following, and a match factory in 1856.

By that date banking conditions were becoming a little less difficult. Specie, for example, was rapidly increased by the discoveries of gold in California, and in the crisis of 1857 the Michigan Insurance Company was actually able to ship gold to New York.

The exigencies of the Civil War gave rise to the national bank era, the great triumphs of which were the giving to the country of its first absolutely safe system of currency, and the remarkable assistance rendered in marketing Government bonds.

In Detroit the First National Bank was organized by Philo Parsons and others in 1863, but in 1865 was continued by (CONTINUED ON PAGE 655)



Just before the Coming of the Automobile

## The Reconstruction Workshop

(CONTINUED FROM PAGE 634)

combined with Federal Reserve credit-ease policy, combined with the second line of defense established by the Glass-Steagall Bill (and subsequently not used), prevented many good banks from closing in February and March. It is impossible to say which influence is which, but I know personally of a few cases in which banks—good banks—were kept open by Reconstruction loans, and I suspect there are many more. There are grounds for belief that loans to these are sound, and will be collected.

A confidential circular of instructions, known as Circular No. 22, has been issued to cover technical procedure on loans to closed banks. Most loans to closed banks have been for the purpose of enabling them to reorganize and reopen. Some have been for the purpose of speeding liquidation and payments to depositors.

Political liberals have made much of the claim that the Government is solicitous of banks and other financial institutions, but is indifferent to the distress of individuals. Without going into the merits of this controversy, I should like to point out to bankers that as a class they have failed to "sell" the public on the idea that the major purpose of this whole Reconstruction program is not primarily to save banks for the sake of their officers, directors and stockholders, but is primarily to save banks for the sake of their depositors and their communities. It is a point which bankers take for granted, but which is not fully appreciated by the general public.

This motive appears frequently in the acts and deliberations of the Reconstruction Finance Corporation. In several cases, banker borrowers are said to have been reminded of the possibility that as bank owners they are not particularly entitled to Government loans, but that as custodians of community interest, they deserve the loans.

### 30 REGIONAL BRANCHES

THE Corporation has set up more than 30 regional loan agencies throughout the country, and they are practically branches of the parent institution. In the general scheme of things, these are of really greater importance than the parent. To them go the applications for most loans. The local examiner and his staff check, examine, report and recommend to the regional agent, frequently cutting down the application, tighten-

ing it up, suggesting various sorts of conditions. The regional agent may pass the application on to Washington, or may consult with prominent bankers who form his advisory committee. (Members of these advisory committees in some cases are active and helpful, and in other cases represent "scenery.")

When the application, with voluminous file, reaches Washington it is re-examined by the chief examiner of the Corporation, who may pass it or further revise the conditions. It then goes to the Board of Directors.

The directors meet every afternoon, —all of them. Seated about the long, imitation mahogany table, they take each case and study it. They thumb through the papers. They talk and argue and scratch their heads. They approve, or revise, or disapprove. Most applications have been well sifted by the processes down below.

### SWIFT

THE speed and expedition of the thing have been remarkable. Not only was the mechanism set up in short order, but it began to function with reasonable smoothness almost at once. It is not a loose piece of machinery. This is due largely to the fact that much of the personnel was taken over from Reserve banks, and that many of the men have had previous experience with the old War Finance Corporation.

All railroad loans to date have been for purposes of emergency financing, and have been rather meager, barely enough to enable the roads to wobble through their current crises. The Interstate Commerce Commission, rather than the Reconstruction Finance Corporation, is the principal judge of necessity on these loans. Many fine points of policy on railroad loans for temporary financing are not discussed here, partly for lack of space, partly because the policies are still fluid.

There is no dependable figure as to the total of loans which the Corporation expects to make, because this depends on the progress of business improvement. At present, the plans are to call on the Treasury to buy up to 250 millions of the Corporation's obligations some time in June. This is over and above the 500 millions of original capital which the Treasury subscribes. At present, it looks, therefore, as if the Corporation were counting on making aggregate

loans up to 750 millions by fall. Total loans to date are around 200 millions.

There are no plans for selling debentures to the public.

In some cases, notably with Intermediate Credit banks, the Corporation has expressed willingness to extend loans which subsequently were found to be unnecessary. This readiness to serve has probably done an immeasurable amount of good, and the effect perhaps is greater than the measurable effect of actual loans themselves.

The Corporation has received nearly 50,000 applications for jobs. Many of the applicants were bankers, some of high rank, some of lowly station. The personnel of the Washington headquarters is around 200, and the personnel in the various regional agencies is around 250; total 450.

The Corporation does not announce each loan, except in the case of railroads. The reasons are obvious: Announcement would embarrass the borrowers. In many cases, however, the borrowers themselves have published the facts, feeling that the announcement would serve to strengthen public confidence in the community.

### INFREQUENT PUBLICITY

DIRECTORS of the Corporation have adopted a policy of no public comment, explanation or illumination of any of its policies or acts. Whatever justification there is for this lies in the fact that policies are still in the making, and that public discussion of them serves to freeze expectations which may not be borne out by later decisions. Furthermore, there is danger that information will be used to influence the securities market, and this would be not only unethical but illegal. But the major influence with the directors of the Corporation is the "fear complex" which has been marked among bankers.

The Reconstruction Corporation could, if it would, be a powerful agency for psychological good effect on the public, instead of merely an efficient technical agency for administering loans. A full report of operations to date is made as of April 1. Thereafter, under present policies of secrecy, will come a three months' period of darkness, of public indifference, of false rumors and misinformation.

Even with allowance for the proprieties of secrecy on many matters, the policy seems ill-advised. It is a fault not so much of commission as of omission or missed opportunity.



**A** POLICY of strict adherence to sound banking principles has brought to this bank correspondents from every part of the country. They find here adequate facilities and competent counsel.

The bank needing a Chicago correspondent will find an association that should prove pleasant and profitable.

**The First National  
Bank of Chicago**  
*Affiliated*  
**First Union Trust  
and Savings Bank**

ESTABLISHED 1863 — CHARTER NUMBER EIGHT

1. Lindbergh Beacon above the streets of Chicago. 2. City of Bahia, Brazil, showing the Lacerda Tower. 3. Villa of I. Miwa, Japanese statesman, on a small mountain.



## Unusual transportation to unusual places

FIVE hundred and fifty feet above the streets of Chicago is Lindbergh Beacon. Its shaft of light guides ships of the night safely to port. So powerful is this light, it burns away its carbons every eighty minutes. Within the tower of this Beacon is an Otis elevator—the smallest elevator in the world. It goes up every eighty minutes to the top of the tower with two caretakers and new carbons for the light.

On a narrow strip of land between a bay and a bluff lies the business section of the city of Bahia, Brazil. Two hundred feet above, on the upper level of the bluff, is the residential district. The population travels from one level to another via two high-speed Otis elevators in the Lacerda Tower. On the first full day of operation, these two elevators carried 24,000 people.

On a small mountain the Japanese statesman, I. Miwa, has built his villa. An Otis elevator travels upward through solid rock to deposit his friends and guests at his very door. People

go up and down in the Royal Gorge, Colorado, on an Otis incline railway and survey the wonder of it at close range. In the Goodyear Zeppelin plant at Akron, an Otis incline elevator follows the walls and the curve of the roof to carry workmen to the suspended stagings.

To problems of how to get *up* and *down*, Otis engineers have devoted all their ingenuity and experience and skill. The same resourcefulness which has made practical these unusual means of getting to unusual places is applied daily to all manner of vertical transportation problems, whether large or small.

You are invited to call upon the engineers of Otis for a solution of whatever problem in vertical transportation you may have. Their service is free. Of like importance with the mechanical part of vertical transportation are the traffic problems associated with it and here again Otis engineers can be of help. To secure the services of Otis engineers, call the office of Otis Elevator Company in your city.

## The Condition of Business

(CONTINUED FROM PAGE 639)

gold stock in the United States increased by some \$300,000,000, and up to August 1931 by another \$400,000,000. During 1931 a number of nations were forced off the gold standard because, as has been said, there was not enough active monetary gold in existence to supply the world's economic needs.

If it was argued that gold shortage and maldistribution contributed to the world's difficulties in 1929 and since, it can equally be argued that increased output and re-distribution should tend to relieve them. Figures now conjointly available show that these changes are at present going on. World gold production rose from the \$403,000,000 of 1929 to \$418,500,000 in 1930 and to nearly \$436,000,000 in 1931, and it is estimated that it will be even greater in 1932 as a result of the stimulation given mining operations by lowered production costs and the enhanced value of gold caused by general commodity price and wage reductions. Also toward the close of 1931 India became an exporter of gold instead of an importer, as a result of depressed agricultural conditions forcing hoarders there to part with their savings of the metal for living expenses and because of the premium on gold in London, and in a few months' time returned \$120,000,000 in gold to general circulation. This movement is also continuing into 1932.

Finally, and tying in more closely with the situation in this country, it was demonstrated last fall, when in six weeks' time foreign nations made use of their open credits here to take more than \$700,000,000 out of the United States, that excess gold reserves here were not wholly sterilized but were held subject to world demands. For a time it was feared by some that danger threatened the gold standard here when the Federal Reserve's free gold was reduced to between \$400,000,000 and \$500,000,000, and there were estimated open credits to foreigners still outstanding of between \$500,000,000 and \$600,000,000. However, the Glass-Steagall Bill was promptly enacted to safeguard this situation by permitting upwards of \$700,000,000 more gold to be freed without reducing in any degree the long established gold reserve requirements of this country, merely allowing gold held in excess of legal requirements

as cover for Federal Reserve currency to be replaced if necessary with United States Government bonds. By these measures the maintenance of the gold standard in this country is assured, and at the same time American gold is allowed to play its full part in world economic reconstruction. Between August 1931 and the present time the monetary gold stock of the United States has fallen by more than \$600,000,000 in a redistribution that should serve an important purpose in strength-

foreign offerings are concerned, it was rather a boom period in comparison with the record which 1932 has started out to compile. The average monthly offerings for the period 1923-1931 amounted to \$637,000,000. But in February of this year offerings came to only \$94,497,344, and for the two months the total was \$292,963,458. The February total was 13½ per cent of the average for the previous four years, and the two-month total was only 12.64 per cent of the 1928-1931 average.

It would seem clear from these figures that an immense backlog of unfilled orders for long term capital is being built up. The \$10,002,000,000 of new long term capital obtained for domestic and foreign account in the last two years is \$5,280,000,000 less than the average for the period, and in the last year alone offerings were below normal to the extent of \$4,548,000,000. Much of this financing is merely being deferred until the market is propitious.

Take the case of the railroads. During the period from 1927 to 1930 the carriers borrowed in the capital markets \$3,535,000,000 at an average annual rate of \$883,750,000. Last year their borrowings on long term amounted to \$516,000,000, or 58 per cent of the previous four-year average. Complete figures for the first two months of the current year reveal that the railroad takings of new capital totaled only \$4,950,000, of which \$3,950,000 consisted of 6 per cent notes placed privately and \$1,000,000 was a refunding issue of the Nashville Terminal Company offered in exchange to the

ening world economic conditions without weakening this country's own position.

These events of the past month demonstrated that our economic structure was not so disorganized and that our national political and financial leadership had not been up till then so aimless as opinion in some quarters a few weeks ago seemed to fear. Instead, it would now appear, as the picture grows more clear, that sound and well reasoned measures for economic reconstruction had been developed one after another, as exigent conditions required. Public recognition that this is true has been reflected in the strengthening of confidence that in itself is essential to business improvement.

## Behind the Bond News

(CONTINUED FROM PAGE V)

holders of the company's maturing first mortgage 5s. Since the beginning of 1931 there would appear to be approximately \$570,000,000 of normal long term railroad financing not yet arranged.

The case of the public utilities is even more striking. From 1927 to 1930 they procured \$10,548,000,000 of new capital, or an average annual rate of \$2,637,000,000. Last year their borrowings amounted to \$1,539,000,000—less than the average by \$1,098,000,000. Their borrowings in the first two months of this year aggregated only \$80,000,000, at an annual rate of \$480,000,000, which is some \$2,150,000,000 under the 1927-1930 average. It is well known that certain utilities are in rather pressing need of funding bank loans. Until this can be done some of the companies dare not, and others are not permitted to, borrow additional amounts on short term so that normal new construction and replacement work can be carried on.

After the market had rectified some of the grosser price absurdities in the rally of recent weeks the opinion was advanced in several quarters that any further substantial recovery in values must await an improvement in business, the contention being that when the railroads and utilities, for instance, begin to cover more clearly their fixed charges, their obligations will not want for buyers. Naturally there would be a stronger demand for issues under such circumstances, but what this school has not taken into consideration is the fact that they can expect exceedingly little betterment in business until the bond market is in a more robust condition.

## Six New Trust Services to American Industry

(CONTINUED FROM PAGE 615)

now not less than 500 pension or retirement plans. This shows a widespread acknowledgement by industry of its obligation to its superannuated workers.

In the beginning most companies administered their own pension funds but lately they have been trusteeing them, so as to place the safekeeping and investing in the hands of a trustee. Typical of these is the American Telephone and Telegraph Company that in 1913 established its pension fund but, after 14 years, in 1927 converted it into a pension trust. This example has been followed or is being followed by one after another of the companies with existing pension plans.

Industrial workers prefer to make provisions for themselves by building up independent estates of their own rather than to rely wholly upon the company, by means of sick-benefit funds and the like, to provide for their temporary incapacities or, by means of pension funds, to provide for their permanent retirement or superannuation. Industry, on its part, fully realizes that the efficiency and stability of its workers are enhanced by their having assistance and incentive in building up independent estates. Company after company has adopted saving and thrift plans. Some companies



MR. STEPHENSON

have even contributed to these funds or guaranteed a certain income from them, thus adding still further to the inducement of its employees to build up estates. Trust institutions have recently been called upon to establish trusts to receive and invest such funds.

Bracketed with the encouragement by industry to its employees to build up independent estates by means of saving and thrift is the inducement by industry to its employees to share in the profits of the business. The theory, of

course, is, that if an employee of the company shares in its profits, he will be more disposed to practice economies, to effect savings, and otherwise to add to the profits of the business. In keeping with this many companies have inaugurated profit-sharing plans. Industry is now turning to trust institutions to handle as trusts the funds thus provided.

In these six ways and in others that will probably come to light later trust institutions are being called upon to help industry to meet its obligation to its employees. It is, therefore, incumbent upon trust institutions to be informed and prepared to administer these industrial trusts with the same high quality of service as they devote to individual, corporate, and community trusts.

The stabilization of employment, relief of the incapacitated, the reward of merit, provisions for retirement, the encouragement of thrift and inducements for profit-sharing—these and other ways to help industry will be presented in later issues as the result of studies made recently.

### CONVENTION CALENDAR

DATE	STATE ASSOCIATION	PLACE
April 12-13	Georgia	Augusta
April 18-19	Louisiana	Baton Rouge
May 5-6	North Carolina	Pinehurst
May 10-12	Texas	Austin
May 12-14	New Jersey	Atlantic City
May 13-14	New Mexico	Taos
May 13-14	Oklahoma	Tulsa
May 17-18	Missouri	Excelsior Springs
May 17-19	Pennsylvania	Pittsburgh
May 18-19	Maryland	Atlantic City
May 19-20	Alabama	Mobile
May 19-20	Indiana	Indianapolis
May 19-20	Kansas	Kansas City
May 23-25	Illinois	Springfield
May 24-26	Tri-States Convention (Mississippi, Arkansas, Tennessee)	Memphis, Tenn.
May 26-27	West Virginia	Fairmont
May 26-28	California	San Francisco
June 1-3	South Dakota	Watertown
June 3-4	Florida	Jacksonville
June 6-7	Oregon	Eugene
June 7-9	Minnesota	St. Paul
June 9-11	Washington	Pullman
June 9-11	District of Columbia	Hot Springs, Va.
June 13-14	Idaho	Rye
June 13-15	New York	Grand Forks
June 15-16	North Dakota	Evergreen
June 17-18	Colorado	Salt Lake City
June 17-18	Utah	Des Moines
June 20-22	Iowa	Milwaukee
June 23-24	Wisconsin	Old Point Comfort
June 23-25	Virginia	New London
June 25-26	Connecticut	Mackinac Island
July 11-13	Michigan	Glacier Park
July 22-23	Montana	

### AMERICAN BANKERS ASSOCIATION MEETINGS

April 21-22	Western Regional Savings Conference	St. Louis, Mo.
April 25-27	Executive Council	White Sulphur Springs, W. Va.
April 29-30	Fifth Southern Trust Conference	Nashville, Tenn.
June 6-10	A. I. B. Convention	Los Angeles, Cal.
Sept. 29-Oct. 1	Tenth Regional Trust Conference	Los Angeles, Cal.
Oct. 3-5	A. B. A. Convention	Los Angeles, Cal.

## And Now We Must Face Facts About Taxes

(CONTINUED FROM PAGE 611)

serve its credit structure. In every instance, however, the primary effort has been how to get more revenue, not how to reduce expenses.

But let us not lose sight of the fundamentals in this problem of taxation. The immediate emergency is the fact that certain units of our Government are confronted with deficits in their operations. Serious as these emergencies are in some communities, the cold facts are that they are only incidental to the fundamental problem. And this problem, whose solution those charged with the administration of government must not evade, is the fact that Government expenditures have been increased to a point where the burden has brought disaster to thousands of taxpayers in every part of the country.

And what are the results? Today tax

levies equal the estimated equivalent of one day's labor every week from every man, woman and child in the United States. Only a short time ago one out of every 22 persons gainfully employed was on the public payroll; today it is one in every 11; and it is said that at the present rate we shall have, in only a little over 20 years, one person on the public payroll for every individual paying taxes.

One million acres of land in a Middle Western state are taken over by the counties of that state for unpaid taxes. Another state has an \$18,000,000 deficit; still another state with \$10,000,000 in signed contracts for certain projects is unable to raise a single dollar to carry on these projects. Delinquent taxes are at least twice as great as in 1930, and the percentage is as high as 60 per cent, 70 per cent and 80 per cent in certain communities. Schools are closed, bond issues are in default, hundreds of communities are tax bankrupt. Those are the basic facts which we cannot, must not, dare not evade.



A Postal Telegram *never* cools its heels in an outer office. It *always* "gets in" . . . *always* commands attention . . . *always* stirs people to action. Today . . . get action with Postal Telegraph.

*Postal Telegraph is the only American telegraph company that offers a world-wide service of coordinated record communications under a single management.*

THE INTERNATIONAL SYSTEM

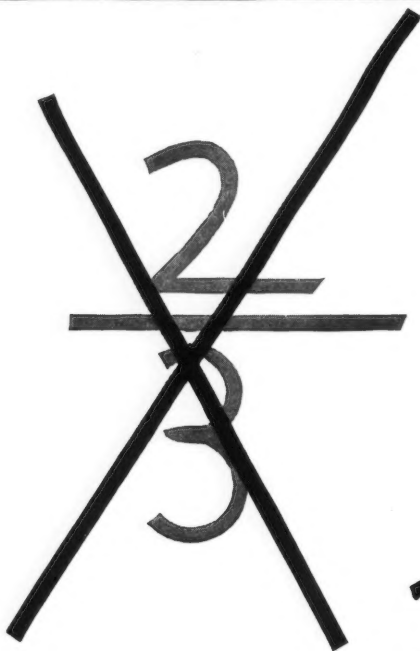
# Postal Telegraph

Commercial  
Cables



Mackay Radio

All America  
Cables



~~$\frac{2}{3}$~~



$\frac{3}{4}$

of the banks of  
Wisconsin now bank  
at the First Wisconsin.

**FIRST WISCONSIN NATIONAL BANK**  
**OF MILWAUKEE**

*Capital and Surplus 16 million dollars*

*Unit of Wisconsin Bankshares Group*

(CONTINUED FROM PAGE 628)

000 or 9.5 per cent since 1927, but in the banks in the larger cities in 1931 the volume is greater than in 1927. A clearer picture may be had if it is realized that the larger city banks held 65 per cent of the demand deposits of the state in 1927 and 88 per cent in 1931. Banks in the other areas had 35 per cent of the larger volume in 1927 but only 12 per cent of the reduced volume in 1931. And this is not an isolated case.

The situation presented by Tennessee is not different. The run-off there was 25 per cent, but the gain in the larger cities was from 63 per cent of demand deposits in 1927 to 73 per cent in 1931 with a corresponding decrease in the other areas of the state. In West Virginia, where the state decrease was 25.4 per cent, the loss in the larger cities was but 7.3 per cent, while the decrease in the rest of the state was 35.6 per cent.

In Georgia and Connecticut, as in New York, although demand deposits as a whole decreased considerably, 19.7 per cent in the case of Georgia and 5.4 per cent in the case of Connecticut, the demand deposits of the banks in the larger cities increased and all the loss in those states fell on the country banks.

Michigan banks show a gain in demand deposits over 1927 distributed between the large city banks and the others, with an advance of about 4 per cent for the large city banks and 1 per

By reason of the falling off of demand deposits during this period of stress and the practical stagnation of time deposits, the country bank is compelled to curtail credit and to refuse loans irrespective of their quality, in order to conserve cash reserves. At the same time the large city bank may have vaults fairly bursting with money seeking employment and may be entirely out of debt to the Federal Reserve Bank.

Meanwhile, newspapers and magazines publish stories, as at present, of the idle money lying in banks and seeking use; speakers at all sorts of meetings emphasize that fact; and manufacturers and distributors urge people to spend their money.

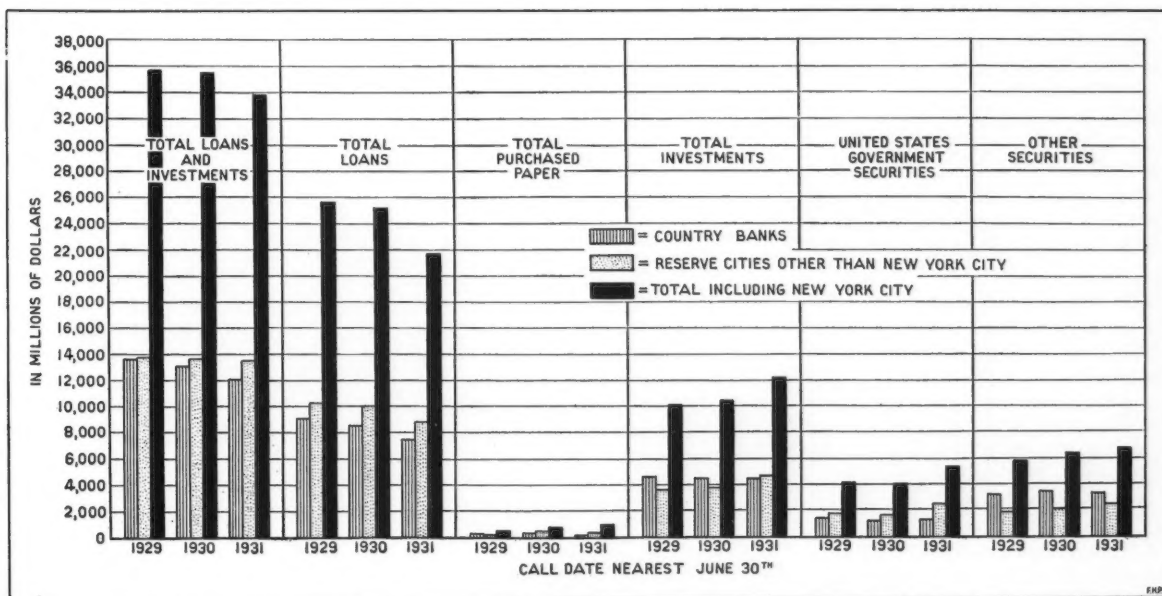
cent developed in the rest of the state.

Illinois, Kansas, Massachusetts, Ohio, —in fact all the states examined, whether agricultural, industrial, or what not,—show the same tendency; demand deposits increase in the banks of the larger cities relatively or absolutely, but decline in the country banks.

All over the country, in the banks of the larger cities for the most part, time deposits have increased during this period. The other areas show a dismaying loss in volume of demand deposits, and in some cases a slight loss in time deposits. Since time deposits tend to increase both absolutely and relatively in comparison with demand deposits, the country banks fare better with them.

To what source of deposits can the country bank look in times of stagnation in business, trade and commerce? Not to increased free demand deposits surely. Those remain in the metropolitan centers where they are created. Nor to time deposits. They, too, drift to the banks of the reserve cities, or are withdrawn by degrees to sustain life, or for hoarding.

Here enters one of the popular misunderstandings, which makes trouble for country banks in times of business recession. By reason of the falling off of demand deposits during this period of stress and the practical stagnation of time deposits, the country bank is compelled to curtail credit and to refuse loans irre- (CONTINUED ON PAGE 671)



A three-year classification of loans and investments of member banks in the Federal Reserve System

## Deposit Guaranty Bills in Congress

(CONTINUED FROM PAGE 621)

which United States shall pay amount heretofore received as franchise tax. Into such fund each member bank shall deposit in trust United States Securities equal to 2 per cent of deposits and also contribute to fund 50 cents per \$1,000 of deposits each calendar year.

March 5, 1932. H. R. 10,201, Cable. (Ohio) Would establish a Federal Guaranty Fund and Insurance Corporation to protect bank depositors. Revision of previous bill.

March 7, 1932. H. R. 10,241, Steagall. (Ala.)

Would establish a Federal Guaranty Fund for depositors in member banks of the Federal Reserve System.

March 7, 1932. H. R. 10,242, McClintic. (Okla.)

Would create National Depositors' Guaranty Fund in each Federal Reserve District under supervision Comptroller of the Currency to protect depositors in National and State member banks. Fund to be maintained by assessment on banks.

### INTRODUCED IN SENATE.

Jan. 6, 1932. S. 3324, Lewis. (Ill.)

Would establish a Bureau of Insurance to insure depositors in national and state member banks. Banks receiving Government deposits would pay premium therefor, to provide for expense of bureau. Levy authorized on banks of such sums as are necessary to insure deposits.

Feb. 26, 1932. S. 3826, Fletcher. (Fla.)

Would establish and maintain a Bank Depositors Guaranty Fund. Each member bank would deposit and maintain 5 per cent of its capital stock.

March 7, 1932. S. 3971, Fess. (Ohio)

Would establish a Federal Guaranty and Insurance Corporation. Same as H. R. 10,201, Cable.

### THE STEAGALL BILL

INITIAL consideration of the subject of bank guaranty will probably center around the Steagall bill, H. R. 10,241. Mr. Steagall, who is Chairman of the House Committee on Banking and Currency, in introducing this bill stated to Congress that his committee would begin its consideration at the earliest date possible and a subcommittee of five (Chairman Steagall and Messrs. Brand of Georgia, Stevenson of South Carolina; McFadden of Pennsylvania and Strong of Kansas) have been appointed to study the subject and, when such study is concluded, there will be open hearings on the bill.

The Steagall bill, in addition to establishing a Federal Guaranty Fund, includes other features. It is also designed to do the following:

1. Increase the minimum capitalization of newly organized national banks (and consolidations) to \$50,000 and require

an initial surplus of 10 per cent of capital for all newly organized banks;

2. Eliminate the double liability of shareholders of newly organized national banks except of those banks which operate a branch;
3. Distribute net earnings of Federal Reserve banks as follows:
  - (a) 6 per cent cumulative dividends.
  - (b) 10 per cent to surplus.
  - (c) One-half remainder to Federal Guaranty Fund.
  - (d) Remaining one-half to member banks.
4. Permit member banks to make a reasonable charge not exceeding 1/10 of 1 per cent for remitting checks.
5. Provide for immediate credit on checks and drafts received for collection by Federal Reserve banks, with right to charge interest until collection.

### ITS GUARANTY PROVISIONS

IN THAT portion of the bill covering the subject of guaranty, a Federal guaranty fund for depositors in member banks of the Federal Reserve System is established under control of a Federal Bank Liquidating Board, consisting of the Secretary of the Treasury, the Comptroller of the Currency and three Presidential appointees. There is to be paid into the fund

1. By the Government, the franchise tax heretofore paid to the United States (stated to be) \$167,000,000
2. By Federal Reserve banks, \$150,000,000 of the surplus now in the hands of the 12 Federal Reserve banks, each bank to pay an amount which bears the same ratio to the said \$150,000,000 as its surplus bears to total surplus of the 12 banks on December 31, 1931. \$150,000,000
3. By member banks, a total not to exceed (unless a less amount is fixed by the Board) \$200,000,000

The above would make an initial fund aggregating over \$500,000,000. With respect to the \$200,000,000 maximum payment, assuming it is required of member banks, each bank must pay an amount which bears the same ratio to \$130,000,000, as its average deposits, other than "time," during the preceding calendar year, bear to the average deposits of all member banks; and each bank must pay a further amount which bears the same ratio to \$70,000,000 as its average "time" deposits the preceding calendar year bear to total "time" deposits of all member banks.

The demand deposits of all member banks on December 31 were \$15,925,000,000 and a payment of \$130,000,000 would be equivalent to a payment by all the banks of over 8/10 of 1 per cent of their average demand deposits. The time deposits of all member banks on December 31 were \$11,428,000,000 and the payment of \$70,000,000 by all member banks would be the equivalent of over 6/10 of 1 per cent of their time deposits. As to individual banks the percentage would be greater or less according to the amount of their deposits.

Each banker can do his own figuring upon the amount his bank would be compelled to contribute.

If the board finds the above payments inadequate, it may after 12 months make an annual assessment upon member banks of the whole or any part of \$100,000,000, each bank to pay an amount which bears the same ratio to the total as its net earnings will bear to the net earnings of all member banks for the preceding calendar year. Sums payable by Federal Reserve banks or member banks are subject to call of the Board, in whole or in part, at such times as it may fix. If the guaranty fund is found more than adequate, the Board may refund to each Federal Reserve bank and to each national bank an amount which bears the same ratio to the excess as the amount which each such bank contributed.

It is to be noted that the bill omits any provision for a refund to state member banks, but this is an oversight.

This bill is not to be taken lightly; it calls for serious and constructive criticism. There are many members of Congress who feel, in view of the considerable losses to depositors through the failures of banks, that something should be done to correct the situation and that, without full consideration, a system of guaranty of deposits seems an effective remedy.

### HISTORY POINTS THE WAY

WHEN, however, the full history of the disastrous results of state bank guaranty laws is made clear, it must inevitably lead to the conclusion that such a remedy is wrong in principle. It would seem, therefore, incumbent upon all bankers who know by actual experience how state guaranty systems have worked out, that they should, without delay, discuss with their respective representatives, the actual facts.



## The Popularity of S & G Secret Key Changing Locks Rests on 3 Reasons

**T**HE renter chooses his box—selects a metal lined sealed key container—and with the aid of the Vault Manager his lock is set to his key. The Renter is the first to see or touch the keys since they left the factory.

### Renter Protection

The keys (we recommend) bear no identification. Even if lost, a key then reveals to the finder neither box number nor bank. When such loss is reported, the renter and vault manager together open box with renter's other key, reset lock to a new set of values chosen by renter—and the lost key is valueless.

### Bank Protection

By the fact that the renter himself selects the sealed keys for his own box, he is profoundly impressed with the integrity and safety of your safe deposit system. He signs legal evidence that no one in your organization saw or touched the keys before he opened their container.

### Economy

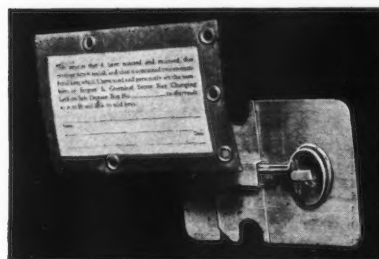
As soon as a safe deposit box is surrendered, it is immediately set to the bank's *unrented* box keys and is available at once for rental. The original renter's keys are useless. This method eliminates time loss in changing locks from door to door—expense of returning locks to factory for re-setting—complicated record systems. With his guard key and empty box key the vault manager can show any *unrented* box at any time.

**"Besides,  
other bankers say . . ."**

**B**UYING safe deposit locks is a long-time investment. Too bad you can't install a few samples first, as a test. Lacking that, the experience of other bankers is interesting. The President of a National Bank writes:

"Sargent & Greenleaf Secret Key Changing Locks on our safe deposit boxes have met with enthusiastic approval on the part of our customers. We believe their installation will be productive of more business in our safety deposit department. We are very much pleased."

"Enthusiastic approval of customers"—"more business"—do you wonder that in choosing safe deposit locks bankers turn to Sargent & Greenleaf Secret Key Changing Locks?



*Keys are sealed in tamperproof, metal lined containers.*

Sargent & Greenleaf, Inc.,  
Rochester, N.Y.

Please send me without obligation further information on the S & G Secret Key Changing Sealed Key Safe Deposit Lock.

Name.....Title.....

Bank.....

Address.....

City & State.....



*Annual Statements January 1, 1932*

# THE TRAVELERS

*Hartford, Connecticut*

L. EDMUND ZACHER, PRESIDENT

## THE TRAVELERS INSURANCE COMPANY

*Sixty-eighth Annual Statement*

ASSETS		RESERVES AND ALL OTHER LIABILITIES	
United States Government Bonds	\$70,932,415.00	Life Insurance Reserves	\$537,068,053.57
Other Public Bonds	92,702,718.00	Accident and Health Insurance Reserves	9,283,694.15
Railroad Bonds and Stocks	79,758,966.00	Workmen's Compensation and Liability Insurance Reserves	49,656,736.70
Public Utility Bonds and Stocks	76,544,360.00	Reserves for Taxes	3,512,128.55
Other Bonds and Stocks	48,154,903.00	Other Reserves and Liabilities	2,619,046.98
First Mortgage Loans	115,921,897.85	*Security Depreciation Reserve	7,726,633.00
Real Estate	21,675,811.62	Special Reserve	9,340,996.50
Loans on Company's policies	106,171,003.04	Capital	\$20,000,000.00
Cash on hand and in Banks	12,103,472.32	Surplus	22,313,717.52
Interest accrued	8,972,347.28		42,313,717.52
Premiums due and deferred	28,331,806.50		
All Other Assets	251,306.36		
<b>TOTAL</b>	<b>\$661,521,006.97</b>	<b>TOTAL</b>	<b>\$661,521,006.97</b>

## THE TRAVELERS INDEMNITY COMPANY

*Twenty-sixth Annual Statement*

ASSETS		RESERVES AND ALL OTHER LIABILITIES	
United States Government Bonds	\$1,715,282.00	Unearned Premium and Claim Reserves	\$9,649,196.70
Other Public Bonds	2,165,135.00	Reserves for Taxes	298,394.71
Railroad Bonds and Stocks	3,119,595.00	Other Reserves and Liabilities	517,390.61
Other Bonds and Stocks	9,909,337.00	*Security Depreciation Reserve	661,853.00
First Mortgage Loans	312,500.00	Special Reserve	2,275,698.40
Cash on hand and in Banks	1,730,823.36	Capital	\$3,000,000.00
Premiums in Course of Collection	2,017,157.56	Surplus	4,667,918.04
Interest accrued	100,567.54		7,667,918.04
All Other Assets	54.00		
<b>TOTAL</b>	<b>\$21,070,451.46</b>	<b>TOTAL</b>	<b>\$21,070,451.46</b>

## THE TRAVELERS FIRE INSURANCE COMPANY

*Eighth Annual Statement*

ASSETS		RESERVES AND ALL OTHER LIABILITIES	
United States Government Bonds	\$2,090,324.00	Unearned Premium and Claim Reserves	\$10,078,455.09
Other Public Bonds	1,246,570.00	Reserves for Taxes	256,770.09
Railroad Bonds and Stocks	2,755,528.00	Other Reserves and Liabilities	45,483.13
Other Bonds and Stocks	6,456,539.00	*Security Depreciation Reserve	519,756.00
First Mortgage Loans	250,000.00	Special Reserve	1,181,435.05
Cash on hand and in Banks	1,756,259.49	Capital	\$2,000,000.00
Premiums in Course of Collection	1,205,015.14	Surplus	1,828,605.22
Interest accrued	129,835.06		3,828,605.22
All Other Assets	20,433.89		
<b>TOTAL</b>	<b>\$15,910,504.58</b>	<b>TOTAL</b>	<b>\$15,910,504.58</b>

\*Basis of valuation of securities is the National Convention of Insurance Commissioners' valuations adjusted by security depreciation reserves.

**MORAL: Insure in THE TRAVELERS**

**MORE THAN FIFTY FORMS OF INSURANCE AVAILABLE**

LIFE • ACCIDENT • LIABILITY • AUTOMOBILE • HEALTH • STEAM BOILER • COMPENSATION • WINDSTORM  
GROUP • AIRCRAFT • FIRE • PLATE GLASS • BURGLARY • MACHINERY • INLAND MARINE

## Nine Pictures of Clearinghouses in Action

(CONTINUED FROM PAGE 625)

every other member bank for their files.

One subject which the association has studied and discussed for some time, and upon which no action has been taken, is that of an activity service charge on open checking accounts. It is very probable that a plan will be worked out and some definite action taken during this year.

We constantly make an effort to have on our program, and as our guests, prominent men of this section in the banking field, and in the past have been honored by the presence of bankers from Kansas City, Tulsa, Dallas, the president of the New Mexico Bankers Association, the managing director of the El Paso branch Federal Reserve Bank, and others.

### INCREASING PROFITS

FROM southeastern Wyoming:

Our association has had only two general meetings, at which, however, definite matters concerning service charges and other problems were agreed upon, and it was then left to the banks in the various cities to get together on their charges for the various services. Most of the banks in our district are making some progress toward increasing their profits through charging reasonable amounts for items of service that heretofore were given to customers free of charge. The cities also are working among themselves with the county treasurer, city treasurer, school districts and others, trying to get the interest rates reduced and in some instances are making some headway along this line.

From southwestern Wyoming:

Our association during the past 18 months has put into effect a service charge of a minimum of 50 cents on balances of less than \$100 daily average or three cents per item on excessively active accounts and on larger accounts in proportion to actual cost upon analysis.

Interest rates on public funds have been practically eliminated and in no case is interest in excess of  $\frac{1}{2}$  of 1 per cent allowed on public funds and then only on commensurate balances. Savings accounts are being paid interest at the rate of 3 per cent semi-annually and time certificates of deposit not in excess of 4 per cent and then only if kept on deposit for a full twelve months' period,

no interest being allowed if withdrawn prior to maturity.

Credit information is disseminated freely between the membership and a great many free services of the past have been eliminated. Customers are being charged for imprinted check books and in every way the membership has exhibited a cooperative and constructive attitude, all tending to better banking practice.

From a county association in New York State:

We have gone to the assistance of two or three banking institutions since the clearinghouse was organized and have succeeded in strengthening their position. Our chief objective at this time is to stabilize the banking situation in one of our towns, and the establishment of the usual clearinghouse departments will be considered at some future time.

Of 62 banks, including one savings bank, we have forty-seven members with a number considering joining.

## Banks and Cities

(CONTINUED FROM PAGE 643)

officers of the State Bank of Michigan, which had been founded in 1859. The Second National Bank was opened the same year, and the American Exchange National Bank in 1865.

That was a busy decade for Detroit. Partly owing to the demands of the war and partly to the growing city, manufactured products trebled in value between 1860 and 1870, and the capital invested in factories rose to two and one-half times as much. This was a much larger increase than that of the population, which implies both constant financing and the development of wealth.

In Detroit the decades between 1870 and 1900 were marked by a steady growth and sound progress, rather than by startling developments.

About the beginning of the 20th century, however, a new era for the city began to appear, which was in many ways the most amazing in all its history.

In 1899 the Olds Motor Works were moved to Detroit from Lansing, and the capital increased to \$350,000. It was phenomenally successful, and the capital was soon again increased, this time to \$2,000,000. The Cadillac Company was incorporated in 1901, and Ford's

From Utah comes this comment:

Our association has achieved the one practical result, namely, increased revenues. These have come not only from small business but some of our larger accounts have yielded us as much as \$100 per month for service.

We have reduced our costs of operation. We have relieved ourselves of the annoyances and vexations which we suffered under the old laissez-faire regime. Both junior and senior officers in the banks throughout the city have been brought closer together. We have learned to appreciate each other's problems; these personal contacts have resulted in increasing mutual consideration and respect.

Competition, which has been accentuated during these troublous times, has been carried on among the banks of the city in a fine spirit of cooperation.

These are only a few of the country's active, successful clearinghouses. There are many others. Properly launched and administered they constitute the best way yet discovered for banks to operate with highest benefit to their communities and themselves.

first company the same year. Two years later the Ford Motor Company was organized with a capital at first of only \$28,000 paid in. The Packard car was brought to Detroit the same year.

All of this ushered in the amazing rise of automobile manufacture, the value of which in Detroit jumped from practically nothing in 1899 to \$60,000,000 in 1909, \$260,000,000 in 1914, and \$880,000,000 in 1919.

To finance this tremendous industry, as well as all the other enterprises that depend in part upon it, has required a vast amount of capital. As elsewhere, where the operations have expanded into millions of dollars, it has been necessary for the banks themselves to increase in size in order to be able to handle such gigantic transactions. For this reason, we find in Detroit not only a number of large new modern banks designed to handle the business of the modern city, but strong amalgamations of bank units in keeping with the big business of the great companies with which they deal. The men who have built these institutions are not merely carrying on the traditions of the past, but are creating a new age both in banking, and in American industry.

## Where to Strike the Depression

(CONTINUED FROM PAGE 623)

than the mobile reserve force that will stand behind the line and promptly move to any part of the front which develops weakness and requires reinforcements to prevent the forces of depression from breaking through.

A very practical demonstration of the value of this mobile reserve force occurred in the first few days of the Corporation's existence. Among the financial institutions to whom the credit facilities can be extended are the Federal Intermediate Credit Banks. The twelve Intermediate Credit banks offered for sale an issue of \$15,000,000 of 5 per cent debentures, on February 15. The demand for such debentures had not been very active lately and an appeal was made to the Corporation to buy these debentures.

### WHOLE ISSUE TAKEN

THE Corporation expressed its willingness to do so, but it was decided to try to accomplish the desired result by underwriting the issue instead of buying the debentures outright. Accordingly, the debentures were offered to the public in the usual way, except that the advertisements carried the announcement that the Corporation would purchase at par any part of the issue not subscribed for by the public. And lo and behold the entire issue had been absorbed on the second day of the offering, and the Corporation did not have to take a single one of the debentures.

Human nature ever remains the same! The mere announcement that someone else stood ready to buy these securities gave the public renewed confidence in the issue and created a sufficiently strong desire to absorb them without any actual financial help from the Reconstruction Finance Corporation.

Banks, both large and small, have had many difficult problems to meet. Deposits have declined the country over, partly because of reduced business activities and declining values, and partly because of ill advised and unfortunate hoarding. Ruthless collections of the notes in their portfolios or forced sale of their bonds on a dull and depressed market would only make matters worse. Under these circumstances, both prudence and necessity demanded that banks restrict their new loans even where sound and adequate collateral was offered, especially as the supply of paper eligible for rediscount with the

Federal Reserve banks under existing regulations was quite limited.

For remember that bankers are just as human as their clients. The depositor never wants his money as long as he is sure he can get it when he does want it. The banker never wants to lend his money unless he is sure he can get it back promptly, or that he at least has collateral on which he can readily realize through sale or rediscount if the necessity arises. It is in that connection that the Glass-Steagall Act should do much good, for it is designed to restore confidence in the banks not only on the part of the public, but on the part of the bankers themselves.

There has been a hue and cry that this new Act is "inflationary" in its character and would therefore ultimately do more harm than good. There is no justification for such fear. The authority to substitute Government obligations for eligible paper is limited to one year.

It is safe to say that there can be no return to public confidence until we can put a stop to this steady destruction of values, but it seems hardly fitting to brand the efforts to counteract this deflationary process as "inflation" in the generally accepted sense. Nevertheless it seems that neither the Greeks nor Webster had a word which more accurately fits the case, with the result that a brand new word has been coined and given general circulation in business and financial circles, and that word is "reflation". It of course intends to convey the thought that the recently passed relief measures will not tinker with our gold standard or make any basic change in our currency system but are intended solely to permit the pendulum of prices to swing back to that happy medium where quoted values will be somewhere near the point of the intrinsic merit of goods and securities.

### TEMPORARY MEASURES

IN conclusion let me emphasize once more that it will not do to create exaggerated hopes regarding an early ending of this world-wide depression. The Reconstruction Finance Corporation and the Glass-Steagall Act are steps in the right direction, but after all they are temporary measures, palliatives rather than cures. The most we can expect them to accomplish is to dispel all fear of a gold or currency shortage and to re-establish confidence in our bank-

ing and credit structure and in the future of America.

In the last analysis the winning of the battle depends on our individual courage and energy and on our ability to adapt ourselves to the changed conditions.

In the meantime it is gratifying to note that the mental attitude of our people is gradually changing and evidences are multiplying that a saner and more hopeful outlook is gaining ground.

It looks, therefore, as if that most essential of all requisites for prosperity—namely, public confidence—may soon be restored. When it is we shall have increasing activity in all classes of business and thus have lifted from the homes and family life of our people much of the presently existing anxiety.

### PROOF OF CONFIDENCE

THE following paragraph is taken from a bulletin sent to members of the Iowa Bankers Association by Secretary Frank Warner in order to show the extraordinary improvement in public confidence during recent months:

"Analyzing the spirit manifested by the bank executives and directors and stockholders who attended the recent 11 District Group Conferences held under the auspices of the credit committee between February 18 and 24, inclusive, President Hasbrouck was impressed with the great psychological change in the audiences over that of the audiences of the 11 similar district conferences held in October, 1931, when the functions of the National Credit Corporation were explained. The members of the credit committee as well as those of the Iowa loan committee remarked upon the difference in the audiences of these two series of meetings separated by less than three and one-half months. The total attendance of the 11 October 1931 meetings reached 1389; the total attendance of the 11 February 1932 meetings in connection with the Reconstruction Finance Corporation totaled 1669 bank officials, directors and stockholders. At the latter 11 meetings the audiences indicated that they were still dealing with serious and unusual economic conditions, yet there seemed to be a well-founded thought universally manifested that the corner had now been definitely turned, that the Federal Government with all of its full force and might was wholeheartedly behind its people and that, therefore, the perplexing economic conditions affecting all lines of business including banking and farming must and will promptly begin to give way."

# Sixty - Ninth Annual Statement



## Summary of Directors' Report for 1931

**Paid to Policyholders and Their Beneficiaries, \$87,743,766.56**

Or \$1,687,380.00 average per week (Including dividends totaling \$19,585,230.38 which represented the regular general scale employed for policyholders' annual reduction of cost.)

**New Insurance Paid-For, \$624,132,060.00**

Equaling 94% of the total paid-for in 1930

**Insurance in Force, \$3,612,880,300.00** An increase of 2½% over 1930 aggregate.

### FINANCIAL CONDITION, DECEMBER 31, 1931

Bonds and stocks owned . . . . .	\$180,490,552.00	Policy Reserve . . . . .	\$522,220,800.00
(Insurance Department standard of market valuation)		Reserve for Dividends to policyholders (payable in 1932) . . .	20,692,929.83
Stocks owned are valued at \$25,340,654.00, of which all but \$3,773,675.00 are preferred or guaranteed.		Death and Endowment Claims in settlement . . . . .	4,259,982.82
Real Estate Mortgages held . . .	297,366,058.16	Deposits and other items awaiting order or not yet due . . .	19,899,385.11
Loans on Company's policies . .	79,310,640.58	Prepaid premiums, interest and sundry items including reserve for taxes . . . . .	5,379,219.40
Cash in banks and office, Real Estate, Interest and Rents due and accrued . . . . .	49,045,686.36	Special Reserve for Asset Fluctuation and Amortization . . .	5,000,000.00
Other admitted assets . . . . .	15,065,195.99	General Safety Fund . . . . .	43,825,815.93
<b>Total Assets . . . . .</b>	<b>\$621,278,133.09</b>	<b>Total Liabilities . . . . .</b>	<b>\$621,278,133.09</b>

**Increase of Assets during 1931, \$37,156,319.68**

*Walter L. Crocker*  
President

**Over 370 offices in 37 states and jurisdictions are available for the life insurance service offered by this Company**

*For information telephone your John Hancock agent*



## The Voice of the Nation speaks on

It is reassuring to investors in American Telephone and Telegraph stock that through recent troubled times the telephone system has kept more than 98% of the total number of its subscribers at the height of the boom. The telephone has established itself as a necessity of business and social life.

Recognizing this fact, the Bell System is going ahead with its program of service improvement. Every working day it spends large sums for construction, keeping the plant at maximum efficiency, adequate for new business.

Forward-looking policies like this are linked in the Bell System with a healthy conservatism in administration.

One result is that American Telephone and Telegraph Company stock has paid dividends regularly through more than half a century.

*May we send you a copy of our booklet, "Some Financial Facts"?*

**BELL TELEPHONE  
SECURITIES CO. Inc.**

195 Broadway, New York City



## Will the New Taxes Hurt?

(CONTINUED FROM PAGE 633)

As anticipated, the corporation income tax is increased from 12 to 13 per cent. The present estate tax is doubled, the additional 100 per cent being dubbed a super-tax and all going to the Federal Government instead of being divided with the state governments.

A gift tax graduated up to 30 per cent is exacted to avoid evasion of the inheritance taxes. These surtaxes or super-taxes are heavy for this country though they are still low as compared with taxes in Great Britain, Germany, Italy and even France. The only thing that can be said for them is that the money is needed and they are temporary.

There are provisions in the bill in the nature of "jokers". A tax of one cent per gallon is imposed upon all imports of crude petroleum, fuel oil and gas oil derived from petroleum, and gasoline. One cent a gallon seems a small tax but it amounts to 42 cents on a barrel of crude oil now priced at 71 cents, nearly 60 per cent of present value and over 80 per cent on values which at times have obtained in the past year. The tax, in short, is rather a protective tariff which will effectually shut out cruder oils while admitting a considerable amount of gasoline for the benefit of the American motorist.

### OPPOSITION

A TAX of four cents a gallon to be collected upon lubricating oil, however, will counteract any benefits to the motorist arising from the gasoline differential since the tax means an increase of from a sixth to a fourth in this very substantial expense of the motoring public.

The oil tax has provoked more opposition than any other single item in the bill except the sales' tax. Opposition comes from consumers on the ground that the measure will increase the price of oil far out of proportion to the revenue produced; and there is much uncertainty as to just what the latter will be. New England claims that the tax is a tariff concession to the oil producing states and a New England opponent of the measure claims that it will cost consumers in his part of the country \$100,000,000 a year. Senator Copeland of New York claims that it will cost the American Merchant Marine \$25,000,000 a year or more than it receives in mail contract subsidies. The Treasury

estimated that the income from the bill would amount to about \$5,000,000 a year; proponents of the tax in arguments before the House committee claimed that it would produce \$60,000,000 a year. The only certainty about the proposition seems to be that it has produced a ruction.

It is of rather disconcerting significance that one of the chief items of revenue in the bill is an indirect tax on beer. A "wet" minority on the House committee proposes to incorporate in the measure a direct tax on 2.75 per cent beer as a means of raising something like \$350,000,000 a year for the Federal Treasury, incidentally authorizing the manufacture and sale of beer of that quality.

What the chances of that proposition may be in Congress remains to be seen, but in the meanwhile the House bill actually proposes to tax malt syrup, used in the manufacture of home brew, 35 cents a gallon and thereby raise \$15,000,000 a year. It also proposes the same tax on wort, which, with the use of yeast, becomes beer, and thus produce \$34,000,000 a year. The issue presented is whether to tax an "illegal business" and raise \$49,000,000 or to make the business legal and raise more than seven times that sum. There is no doubt that one or the other alternative will become the law.

#### "NUISANCE" TAXES

THERE is opposition, as might naturally be expected, to what are generally known as "nuisance" taxes such as the provision that a tax of 10 per cent shall be collected upon all amusement admissions above 25 cents. Theatrical managers are united against it. They say that it will produce nothing like the \$90,000,000 anticipated by the Treasury. They say that the theatrical business is already dying on its feet and cannot stand the tax. One wonders. These are days of business depression, unemployment and many other ills, but long queues at theatrical ticket windows do not indicate it. The additional 10 per cent tax is not likely to keep people away from the classes of amusements to which they are accustomed. They will realize that they are paying a tax and probably will grumble. But they will pay. Nor is the tax of six and ten cents on all telephone, telegraph, cable and radio messages originating in the United States and costing more than 30 cents likely to interfere with communications. Fortunately ordinary local telephone services are not affected.

Wall Street comes in for a body blow.

## Take care of the Hours and the Days will take care of themselves



Interest on bank transactions is figured in terms of days, but Post Office and Railroad schedules are based on minutes.

Thus a draft or other collection item that is permitted to lie idle for even an hour may be penalized a full day's interest.

To keep your money working it is necessary to keep your out-of-town items moving.

Our Collection and Transit Departments are in continuous 24-hour-daily operation.

All items received at par.

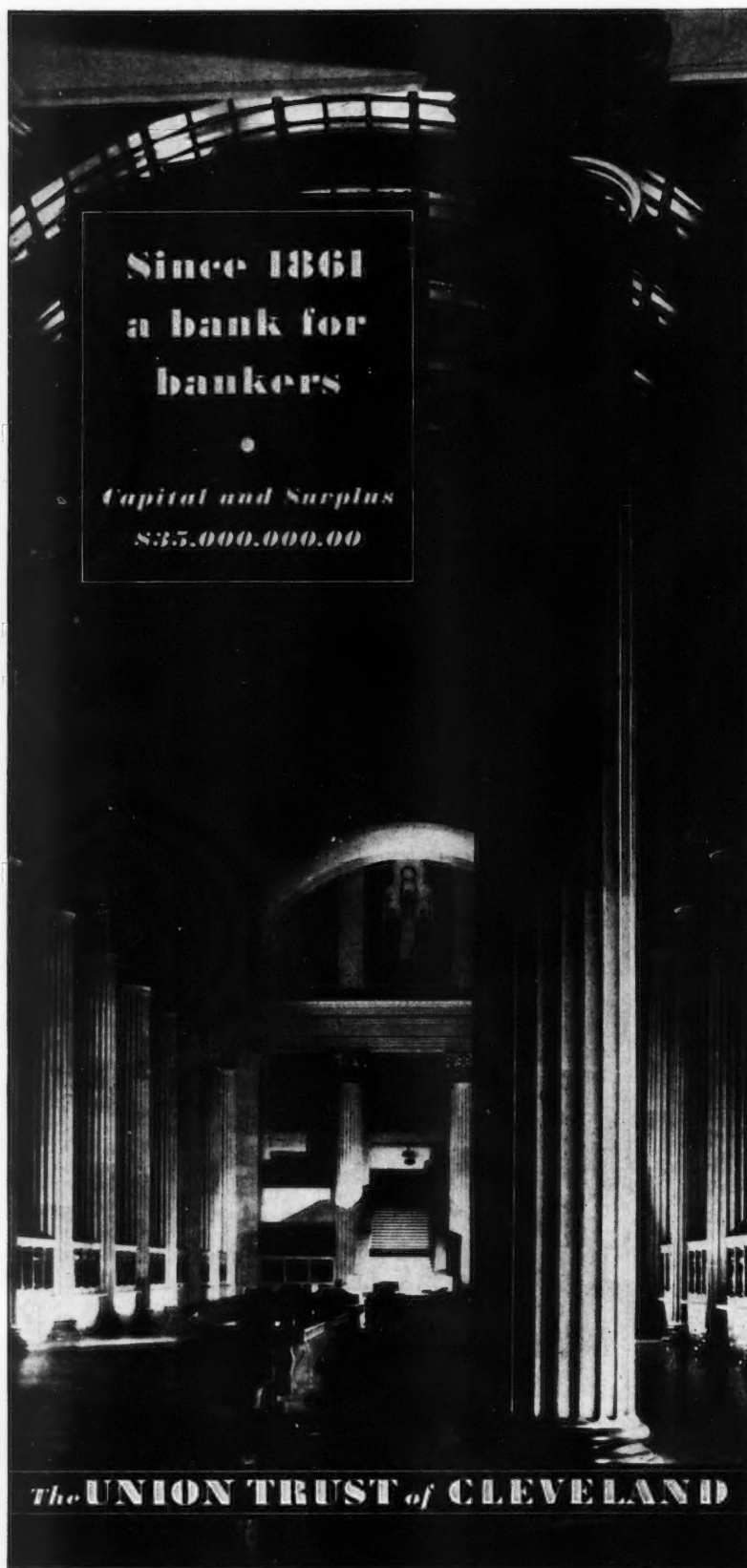


...THE...

## PHILADELPHIA NATIONAL BANK

ORGANIZED 1803

PHILADELPHIA, PA.



**Since 1861  
a bank for  
bankers**

*Capital and Surplus*  
**\$35,000,000.00**

**The UNION TRUST of CLEVELAND**

The capital-gains-and-losses provision of the present tax law is modified so as to permit stock and bond losses to be charged only against stock and bond gains. In other words, Wall Street patrons will not be able to reduce their income taxes by sales of stocks and bonds at the end of the year to establish losses which can be charged against their total income and then repurchase their holdings. The bill goes after "wash sales" of stocks or bonds to a foreign corporation or trust to avoid income taxes by taxing such sales 25 per cent of the profit estimated to arise by comparing their present value with the adjusted basis under the present law. Stock transfer fees also are increased from two to four cents and made applicable to all loans of stock to cover short sales.

#### TAXES NEVER HELP BUSINESS

NATURALLY none of these taxes or the administrative provisions which make their collection possible are going to help business. Taxes never do. The most that can be anticipated is that the imposts will be so distributed as to do the least harm. All things considered it seems likely that the ultimate judgment of the business and financial world will be that Congress is doing a pretty fair job of it.

Interference with business and finance seems to have been held to a minimum. Either general sales tax or special taxes will undoubtedly add to retail costs considerably more than the actual tax on the articles involved. Of course the ultimate consumer and not the manufacturer will pay the tax and most retailers will find it necessary to add a profit to the additional outlay the tax requires. Perhaps the most objectionable features of the law from the standpoint of economic principle are those imposing added and in some cases almost killing burdens upon large incomes and estates since these imposts will undoubtedly halt the accumulation of capital,—always a necessity for economic progress.

There is no doubt the manufacturers' sales tax is an innovation of permanent importance in American business life. If adopted in some form, as seems probable as this is written, it means an abandonment of the Treasury policy of raising necessary additional income by special taxes,—5 per cent on automobiles and accessories, 5 per cent on radios, a one-sixth increase on tobacco manufactures, a two cents tax on checks and drafts, a special tax on the consumption of gas and electricity, and various increases in excise taxes generally.

## Bear Baiting and the Uses of Speculation

(CONTINUED FROM PAGE 629)

same sort of delving into the charges that the bulls unfairly and improperly manipulated the rise in the prices of stocks in the 1927-1929 boom. If, as it has been argued, bears have unduly depressed stocks in the past year by manipulation it also is argued that the bulls unduly inflated stocks during the boom period also by manipulation.

It is manipulation and abuses arising from the possibilities of manipulation that the committee is after. It is a common charge of bear operators that during the 1927-1929 boom large banks, large industrial concerns and large corporations whose securities are traded in on the Exchange or which had interests in high prices of securities to protect, so manipulated the market by wash sales and other devices as to force prices far higher than was justified. This enabled them to float their own securities to advantage but it led inevitably to the reaction through which the country has been passing in the past 30 months.

### STORIES OF RAIDING

ON the other hand, it has already been testified before a House committee working along similar lines that large corporations have driven down the price of stocks and bonds in one market so as to interfere with the financing of competitors. It has even been charged that a gigantic pool was organized in Great Britain and on the continent for the purpose of raiding the New York market for the purpose of so driving down the prices of American securities that European creditors of the United States could buy them for a song, hold them for a rise, and thus settle their obligations in this country at a material discount. Then there was the story that these European bears that walk like men planned to so beat down the prices of American securities that they would force the United States off the gold standard and thus bring the United States to terms in the matter of inter-governmental debt cancellation.

Far fetched tales, some of these, but they serve to give the background and in them may be a modicum of truth. There may have been manipulation in either direction which has been unfair to business interests and unfair to the public generally and it is in the possibility that such has been the case that justification for the elaborate investigation planned by the Senate committee

## A family of famous foods presents its annual report



THE GROUP of nationally advertised products which comprise the General Foods family enjoyed a relatively successful year during 1931.

This fact is a tribute to the stability of the food industry, America's largest business. It also shows the advantages, both in production and selling, which come from grouping products distributed through identical channels. It shows the stabilizing effect resulting from the development of a merger of the General Foods type.

The story of General Foods' activities during 1931 is told in the Company's Annual Report. This report, originally prepared for distribution to the company's 53,000 stockholders, is now offered to the public in booklet form. A written request from any interested person will bring the booklet free.

## GENERAL FOODS

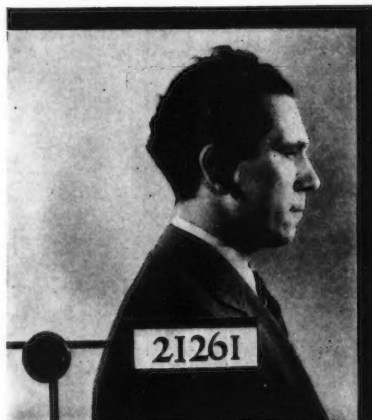
DEPT. IO-X

250 PARK AVENUE

NEW YORK CITY

*Maxwell House Coffee and Tea, Log Cabin Syrup, Jell-O, Certo, Postum, Post's Bran Flakes, Calumet Baking Powder, Walter Baker's Chocolate and Cocoa, Franklin Baker's Coconut, Minute Tapioca, Grape-Nuts, Sanka Coffee, Swans Down Cake Flour, Post Toasties, Satina, Birdseye Frosted Foods, La France, Diamond Crystal Salt, Whole Bran.*

- *These are criminal-breeding days. Watch out! Have you adequate safeguards against the possible dishonesty of trusted employees and the murderous new tactics of bandits and burglars?*



## *This new F & D* "LOSS-PREVENTION SERVICE" .. are you receiving it, free?

The F & D is mailing to a designated official in each of several thousand banks, at monthly intervals and under confidential cover, brief synopses of actual claim cases involving bank embezzlements. The object of this service is to familiarize bankers with some of the methods by which such losses are caused and covered up, and thereby to enable them to detect possible weaknesses in the auditing and control systems of their own

institutions. If you, too, would like to receive these "case histories", we will gladly add your name to our mailing list upon request. There is no charge for this service, nor will it obligate you in any other way. Just drop us a line today, on your official letterhead.

### FIDELITY & DEPOSIT COMPANY OF MARYLAND

Home Office:  
Baltimore  
Representatives  
Everywhere



Fidelity and  
Surety Bonds  
Burglary and Plate  
Glass Insurance

has been advanced in various quarters.

There is also no doubt that there is much feeling in Congress against stock exchange speculation as such in its influence upon the business life of the country in general. It is significant that the Senate resolution authorizing the investigation referred particularly to the effect of stock market practices upon interstate and foreign commerce, upon the operation of the national banks and the Federal Reserve System and upon the market for securities of the United States Government. Considered in connection with the confessed object of the Glass bill to amend the Federal Reserve Act so as to prevent the use of Federal

Reserve credit in speculative operations in stocks and bonds, it is evident that Congress has in mind the possibility of some control of speculative activities in securities other than by controlling credit for speculative purposes.

Primarily such intention is based upon the idea of preventing recurring booms and depressions in business generally but it is well to recognize the fact that in some parts of the country there is considerable strong feeling against stock market operations as they have been conducted in recent years. No one is likely to contend that the events in the stock markets of the country since 1927, not to mention other periods, have

endeared speculation to the American people.

Senator Capper in a recent radio address denounced both the bulls and the bears and declared that the New York Stock Exchange is "this world's greatest gambling institution." That declaration will have only too general an echo in western and southern states and members of Congress as a rule specialize in such echoes. Nevertheless Senator Walcott, Chairman of the Senate Investigating Committee, insists that there is not a man on the committee who wishes the Stock Exchange abolished but that every man is determined that the facts shall be known and, if there are abuses, that they be corrected—preferably by the Stock Exchange itself rather than by legislation.

#### HOPE FOR BOTH

IN this latter idea, that of self-correction if correction is necessary, lies hope for both bulls and bears. Neither can consistently object to the correction of faults and abuses where they are shown to exist, especially if the correction is to be made by the Stock Exchange authorities upon whom lies the primary responsibility.

Reform under such auspices, towards which the Exchange already has been moving, can be effected with minimum interference with the ordinary course of business. Much water has gone under the financial bridge since 1927 and in the rise and fall of the great bull movement both bulls and bears may have learned something to the advantage of all concerned. It is certain that neither Congress nor the American people will ever again willingly permit either a security boom such as that of 1927-1929 or the disastrous reaction which has followed it.

#### WEALTH

"IN TIMES such as these, many men are prone to despair. They see progress checked along the customary lines; they feel we are doomed to years of stagnation, unemployment and want. They forget that the American public possesses billions in money which is eager to find safe employment. They overlook the fact that our national resources are almost limitless; that our physical equipment along transportation, utility and manufacturing lines is unequalled anywhere in the world and that the American worker—even though he be unemployed at the moment—has not lost his skill, craft or zest for work."—DR. WILLIAM E. BAILEY, *Economist*, The Travelers Insurance Company.

## A Group of Men We Should Know

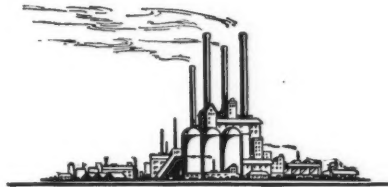
(CONTINUED FROM PAGE 613)

County, Missouri; educated in the Iowa public schools and the Southern Iowa Normal school, studied law and is listed as farmer, lawyer, teacher and soldier. Senator Phillips Lee Goldsborough of Maryland, the next ranking member, was born in aristocratic Princess Anne County, educated in public and private schools with degrees from three colleges, is a lawyer, has been Governor of his state and is the head of a large trust company in Baltimore. Senator Townsend of Delaware, listed as a farmer and banker, comes from Selbyville, a town of 661 inhabitants. Senator Walcott, who sponsored the Reconstruction Finance Corporation Act, is a business man, hailing from Norfolk, Connecticut; highly educated, wealthy, and an associate of President Hoover in the food administration during the world war.

On the Democratic side Senator Duncan U. Fletcher is ranking member. He is a lawyer from Jacksonville, college educated, former mayor of Jacksonville where he has always practiced law. Senator Carter Glass of Virginia, probably the most prominent man in Congress in banking legislation, comes from Lynchburg where he was born and educated. He has always been in the newspaper business and now owns the morning and afternoon newspapers of his home town. Senator Wagner of New York, the next ranking member, was born in Germany, is college bred and not only a lawyer but a former judge of the Appellate Court in his state. So on down the list. Few of these legislators have had any direct connection with banking; nevertheless practically all of them have had much experience with public affairs while some of them have had experience which ought to be valuable to the country in many lines. Probably all of them have had more connection with banking than appears from their professional classification.

It would be idle to claim that this layout of statesmanship is ideal for dealing with the banking laws of the United States. But what would you? Banking conditions have apparently been vastly improved in the past few weeks as a result of the organization of the National Credit Corporation, the passage of the Reconstruction Finance Corporation Act, and the more liberal policy in Federal Reserve rediscounting authorized in the Glass-Steagall bill.

## Sound and Marketable common stock collateral



Corporate Trust Shares are readily marketable through a nation-wide organization of banks and investment houses. Moreover, the Trust Agreement provides that they may be converted directly through the trustee into the underlying securities or cash.

These shares offer the security of high grade common stocks plus the security of wide diversification.

## CORPORATE TRUST SHARES

*Accumulative Series\**

This is a fixed investment trust sponsored by  
**ADMINISTRATIVE AND RESEARCH  
CORPORATION**

120 Wall Street



New York

\*Also available in distributive type known as Series AA.

Holders of OLD SERIES Corporate Trust Shares may, if they desire, exchange for either of the new series—on a preferential basis. Get details from any authorized distributor.

The Portfolio of the new Accumulative Series is comprised of stocks of these

**30  
COMPANIES**  
*in equal share  
amounts*

### INDUSTRIALS

Allied Chemical  
American Can  
Am. Radiator & S. S.  
American Smelting  
American Tobacco  
Borden  
du Pont  
Eastman Kodak  
General Electric  
International Harvester  
National Biscuit  
Otis Elevator  
Procter & Gamble  
Union Carbide  
United States Steel  
Westinghouse  
Woolworth

### UTILITIES

Amer. Tel. & Tel.  
Columbia Gas & Elect.  
Consolidated Gas of N. Y.  
Electric Bond and Share  
North American  
United Gas Improvement

### RAILS

Atchafalaya Top. & Santa Fe  
New York Central  
Pennsylvania Railroad  
Union Pacific

### OILS

Standard Oil (Indiana)  
Standard Oil (New Jersey)  
Texas Corporation

These measures have come from politico-statesmanship in Washington. With respect to further legislation it is safe to say that if the bankers of the country agree on what is the matter, there will be little trouble in getting the proper corrective through Congress.

Whatever lack of Congressional leadership there may be in banking legislation is due in some measure to a lack of agreement among bankers. There have been a few times in the history of the United States when Congress assumed real leadership, but only a few times. Usually statesmen in Washington have their ears to the ground ready to follow the dictates of the ground swell.

## A Bank's Personality

(CONTINUED FROM PAGE 614)

or needs to be told; his is the judgment that should determine how, when and where the story can best be told.

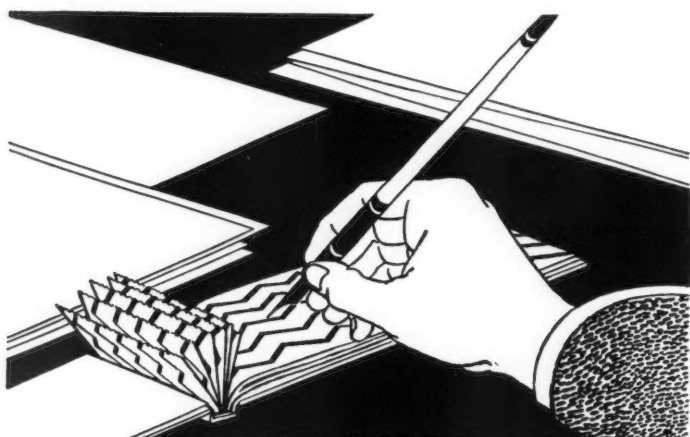
Industry has recognized in the last few years the importance of sales, merchandising and distribution, and have accorded to public relations operations weight equal to manufacturing and operation. Banks have also felt the trend, and have taken public relations more seriously than in the past. Bank officials more and more are finding that a sound public relations job can be of profit to the institution.

## BANK YOUR MONEY AND PAY BY CHECK

Safety and convenience make checks the preferred means of paying bills and transferring money.

Checks are your personal money. They relieve you of the necessity of carrying large sums of money, subject to loss or theft. They give you a receipt for every bill you pay. They help establish your standing and credit.

It is a service banks gladly render — one which costs them



money to provide. Even if a small charge is made for the service, it is worth it, many times over, in the safety, satisfaction, and convenience it affords. • GEORGE LA MONTE & SON • NUTLEY, NEW JERSEY

79 OUT OF THE 100 LARGEST BANKS

## USE LA MONTE SAFETY PAPERS FOR CHECKS

### The Reserve Board's New Power Can Be Handled with Care

(CONTINUED FROM PAGE 610)

forcing the member banks to rediscount or borrow. It is merely, from the Federal Reserve standpoint, a question of swapping assets—but rediscounting or borrowing costs the member banks money, and why should they be compelled to pay for currency which they cannot use—currency needed for the sole purpose of paying deposits? There

is no possibility of inflation in this operation under present conditions for bank deposits are purchasing power and "there is simply a change of form from one form of bank credit to another," as the National City Bank points out in its March Bulletin.

If this section should be made permanent law, the objection to it is that it gives the Federal Reserve banks with the permission of the Federal Reserve Board very great leeway in the direction of issuing additional currency or putting out additional credit on their own initiative, rather than the initiative of the member banks. They could purchase additional securities theoretically

to the limit of their surplus gold—about \$1,200,000,000, according to the March Monthly Review of the Federal Reserve Bank of New York. But it is absurd to suppose that purchases are likely to be made beyond a very small fraction of that amount, and it serves no useful purpose even to suggest the limits of credit that could be extended, or the fantastically large additional issues of currency that could be made.

The Reserve banks would probably have offset to some extent gold exports and currency demands last November had this section of the Glass-Steagall Act been the law then—but at present writing it appears to be rather more likely that we shall have both gold imports and returning currency before very long. In short, sales of Government securities by the system may soon be in order rather than further purchases.

#### THEORY OF NOTE ISSUE

DR. WILLIS has described (pages 121 to 123) in "Federal Reserve Banking Practice" the original theory on which the Federal Reserve currency was based and the various departures from it, both through amendments to the Federal Reserve Act and through changes of policy on the part of the Federal Reserve Board and banks. The old self-liquidating commercial paper theory was abandoned, he says, in the Act of June 21, 1917. "By that Act it was provided that note issues should occur whenever member banks desired to obtain currency provided they deposited with the Reserve bank, to be transferred to the Federal Reserve Agent, either eligible paper or forms of lawful money. This made the issue of notes directly, instead of indirectly as before, practically an exchange of Federal Reserve notes for other forms of money or for discounted paper."

He does not stress the fact that the Federal Reserve banks themselves were given a certain small amount of initiative when purchased bills of exchange and acceptances were added by this Act as collateral for Federal Reserve notes. However, note issues were still made in the main under this Act "whenever member banks desired to obtain currency." Under the third section of the Glass-Steagall Act, notes could be issued whether the member banks desired to obtain currency or not, on the initiative of the Federal Reserve banks with the permission of the Federal Reserve Board.

At the present time member banks have strongly evinced their desire to obtain currency by very large rediscounts at a time when there is a very

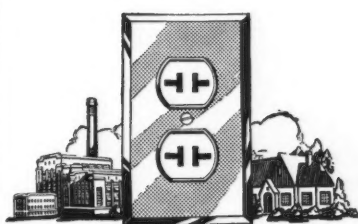
small business demand for credit, and the third section of the Act will doubtless be used to relieve them of some of the pressure occasioned by these very large rediscounts, but it could be used to increase currency or credit when there was no such demand from member banks in evidence. It might be called a new "managed currency" weapon, and its careful management apparently depends almost wholly upon the Federal Reserve Board which cannot always be depended upon for conservatism.

There is much to be said for a direct asset currency issued by the Federal Reserve banks themselves under proper limitations, doing away with the farce of Government issues through the Federal Reserve Board and the Federal Reserve Agents against collateral deposited with the latter by the Reserve banks—but without such a radical revision the third section of the Glass-Steagall Act should not become permanent law, though it might be well if possible to provide some means of making its provisions temporarily effective, without the necessity of its re-enactment by Congress, if we should ever be confronted again by such an extraordinary emergency as that through which we have been passing. Both of the first two sections contain provisos that "No note upon which advances are made by a Federal Reserve bank under this section shall be eligible under Section 16 of this Act as collateral security for Federal Reserve notes."

#### SHOULD BE REMOVED

THESE provisos should in my opinion be stricken out. Lombard loans of any character are contrary to the theory under which the Act was passed but the theory never has worked as expected and these sections are emergency currency sections. They still preserve the initiative of the member banks and are not by any means so radical a departure from the theory as the third section.

It is the volume of Reserve credit outstanding that counts and not the way it gets out, and the volume of advances to member banks can readily be controlled by rates. The requirement that banks borrowing under these sections must pay a rate "not less than 1 per centum" above the discount rate of the Reserve bank making the loan is a sufficient safeguard, and there is no good reason for the further requirement that advances made under these sections shall cause a reduction of the "free gold" of the Reserve System. The provisos of the first two sections go far towards making the third section necessary and



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if they were stricken out there would rarely if ever be any occasion in the future to invoke the third section.

The little slap at "foreign obligations" in the first two sections should, of course, be removed.

#### NEW BOOKS

THOSE interested in Washington subjects will find two recent books on Government operations. "Federal Financing" (Columbia Univ. Press) is a study by the author, Dr. Robert A. Love, of the methods employed by the Treasury in its borrowing operations, and of some of the less familiar aspects

of the Treasury's fiscal policy. "Financial Condition and Operations of the National Government, 1921-1930" (Brookings Institution) seeks to set forth the actual financial operations under the national budget system. The author is W. F. Willoughby, and his latest book might be termed a companion volume to "The National Budget System", published in 1927.

"RURAL Banking Reform", by Charles W. Collins, is an interpretation of current movements in bank organization and management, particularly in their effect upon rural communities. (Macmillan).



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## Municipal Finance at the Fork in the Road

(CONTINUED FROM PAGE 627)

Perhaps the most serious present barrier is the inability of the many parties to the situation—officials of Chicago's legion of local governments, the governor, the state legislature, political chieftains, the leaders of civic relief committees, and the purchasers of tax anticipation notes, to agree on a course of remedial action to which the great unorganized army of Chicago's taxpayers can subscribe with confidence in

the result. But Chicago is no more typical of conditions in municipalities the country over than a failed bank in a depopulated agricultural area is of the country's banking institutions.

New York made little effective attempt to eliminate numerous elements of weakness from its position until unable to borrow large sums for current needs. Just how well it lives up to its promises to economize, upon which its recent short-term credits were conditioned, will determine whether its situation gets better or worse.

The Independence Square demonstration in Philadelphia in a sense was the

outburst which comes when Job's patience has been exhausted. For months, while tax delinquencies were increasing, the city temporized with the situation. The crisis came with a proposal to increase 1932 taxes rather than balance the budget by reducing expenditures. Sharp retrenchment was promptly voted by the city council. Again in this case much more prominence was given to the fact of a crisis arising than to the drastic measures which were immediately put into effect.

Of all the critical situations, perhaps the most interesting is that of Detroit, not only in point of severity, but even more in point of the degree of courage mustered to deal with it. For some time, Detroit had been accumulating a deficit. It amounted to more than \$60,000,000 at the beginning of the current fiscal year. With an unbalanced budget and no prospect of reducing this floating debt, the city could not persuade the bankers to renew their notes unless certain conditions were met. Detroit met their terms. Moreover, it has gone to extraordinary lengths to perform its end of the bargain. To its officials goes the credit of giving the nation one of its outstanding examples of thrifty municipal housekeeping.

### NOT TOO SEVERE

THE conditions upon which Detroit's short-term debt was renewed contain many suggestions susceptible of general application. They included:

1. That the city go on a cash basis, spending no more than it collected, with quarterly analysis of expenses to show the need for further adjustment of appropriations.
2. That there be drastic cutting of departmental appropriations.
3. That expenditures for unemployment relief be greatly reduced.
4. That public improvements, except those essential to health and safety, be deferred.
5. That improvements financed by special assessments be discontinued in districts having substantial tax delinquency.
6. That efforts to collect delinquent taxes be intensified.

In complying with these conditions, Detroit did many of the things that "can't be done" according to long-standing political traditions, and did them without much virtuous beating of breasts by the officials involved. Over the past eighteen months, according to the report of the Committee on City Finances, headed by Ralph Stone, Detroit banker, the city has abolished 840 municipal positions involving \$1,600,000; deferred \$300,000 of museum purchases; curtailed recreation and welfare activities; adopted a one-year holiday on public

improvements; financed deficits through taxes rather than borrowing; provided for liquidating \$7,600,000 of the \$61,000,000 deficit; reduced welfare expenditures from \$17,000,000 in 1930-31 to \$7,000,000 in 1931-32; adopted a reduced budget at the outset, and then effected successive additional reductions of \$3,555,000, \$1,205,000, \$1,300,000, \$1,050,000 and \$5,000,000, in compliance with the "cash basis" arrangement, and postponed \$40,000,000 of public improvements already authorized. Fiscal "crises" give way before that kind of treatment.

There are other isolated cases apart from large cities where adjustments have had to come through the pressure of immediate necessity rather than from voluntary decision. They include the so-called "receivership" of Fall River, Mass.; the debt defaults of certain Carolina and Florida cities, and the budget breakdowns of several Detroit suburbs. In virtually every instance, a sound remedial plan already is in operation. The difficulty is that such events are accorded a significance far out of proportion to their importance if they are accepted as symptoms of a supposedly general condition.

As a second general class are the cities—hundreds of which always have managed their affairs with reasonable discretion—whose officials and citizens sensed the coming of abnormal conditions and then proceeded to cut the cloth of their expenditures to fit the pattern of reduced taxpaying ability. When heralded in the public prints, Detroit's decision to "go onto a cash basis" sounded iconoclastic and breathtaking. But scores of other local governments have done exactly that without it being a matter of unusual notice. Just how extensive has been the making of realistic adjustments is indicated by the cases of Indiana and Wisconsin.

#### PUBLIC FORCED ACTION

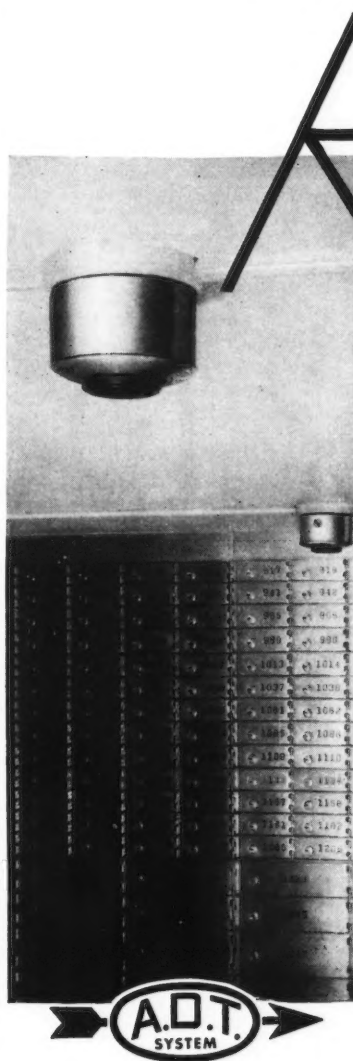
AT THE first evidence of mounting tax delinquencies, falling property values and shrinking prices for farm products, officials and citizens of local governments rather generally through Indiana started taking appropriate measures. There was a strong public demand for retrenchment of governmental costs, to which public officials responded readily. According to the Indiana Taxpayers' Association, 74 out of 92 counties reduced their 1931 expenditures by \$4,800,000 under the 1930 level, and subsequently 86 counties reduced their 1932 appropriations by more than \$7,000,000 under the 1931 level. Out of

1,016 townships, nearly 800 showed appreciable reductions of appropriations in 1932, notwithstanding the fact that 700 townships had effected sizable retrenchments the previous year. Believing that the way to reduce taxes is to reduce expenditures, Indiana forces are going forward with renewed energy this year to obtain further relief in 1933.

Following an economy campaign throughout Wisconsin last fall, in which several thousand public officials and business leaders participated, an analysis of 1932 tax rates made by the Wisconsin State Chamber of Commerce showed that with surprising uniformity economies under the 1931 level had been

effected throughout the state. Fifty-nine cities of more than 2,500 population effected a reduction in tax levies of \$4,500,000, or nearly 9 per cent. Eighteen smaller towns made curtailments of \$200,000, or 18 per cent, and 37 counties effected reductions of \$3,860,000, or 27 per cent.

Although it caused little notice outside the immediate region, the budget of the city of Oshkosh prepared by Mayor Taylor G. Brown and his associates provided an outstanding instance of what can be done through careful budgeting of available resources. Payments of interest and bond maturities were continued without interruption. No salaries



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were reduced. No permanent employees were dismissed. Welfare appropriations had to be materially increased. Yet sufficient adjustments in secondary services were made to permit a reduction in the city's tax levy from \$1,577,000 in 1931 to \$1,277,000 in 1932. The county reduced its levy from \$772,000 in 1931 to \$507,000 in 1932. These savings, along with a reduction in state taxes, meant a saving to Oshkosh property owners of roughly \$600,000 this year.

Another Wisconsin city, Appleton, showed what could be done to meet the

need of taxpayers for lowest possible taxes during a trying period. It cut its levy from \$1,231,000 in 1931 to \$860,000 in 1932, and then modernized its assessment system to such an extent that its current tax rate is \$18.00 per \$1,000 of assessed valuation, compared with \$35.00 a year ago.

Such examples abound. For every city which defaults its debt service, there are scores and hundreds which maintain theirs without giving a moment's question to it. For every Chicago with its fiscal distress, there are a hundred cities

which have kept out of trouble. A selection at random shows Tacoma, Wash., with a current tax reduction of \$800,000, or 12 per cent; Minneapolis, with economies of \$765,000; Salt Lake City, with a plan for \$500,000 retrenchment; Montana, with the cost of county government cut \$1,014,000 this year; Beloit, Wis., with its five-year succession of municipal tax decreases; Iowa, with its 1932 program for \$10,000,000 or \$12,000,000 less taxes; North Carolina and Alabama, with 10 per cent reductions in the cost of state government; Rochester, N. Y., with a saving of \$275,000 in school expenditures, and West Palm Beach, Fla., with its precipitate drop of municipal appropriations from \$1,640,000 in 1925-26 to \$337,000 in 1931-32. In these and similar cases, the unfortunate thing is that vivid headlines cannot be created out of the fact that somebody refrained from rocking the boat.

### FOUR DEVELOPMENTS

IF ONE were characterizing the major developments in municipal finance during the past eighteen months, these facts could not escape attention:

1. That the great body of taxpayers, slow to act, finally have insisted upon economy in government, thus making that policy more politically practicable than it has been for a decade.
2. That with a few spectacular exceptions, the adjustment of state and local public expenditures to a level in keeping with the times is going forward in healthy, admirable fashion.
3. That instead of isolated debt defaults undermining the whole structure of municipal credit, the preponderance of cases in which debt service has been maintained unimpaired is perhaps the most eloquent testimonial ever given of the stability of municipal bonds.
4. That the early practice of expanding public expenditures, particularly those for all manner of public improvements, as a means of artificially stimulating employment, has abated perceptibly.

Municipal finance manifestly is in a state of flux. Trends are not yet well-defined. There is encouraging evidence to support the belief, perhaps only the wish, that one distinct period, that of heedless increase of taxes, is drawing to a close, and that another, that of more cautious spending and conservation of public credit, is getting under way. It is, however, too early to tell with assurance.

But if the trends which now seem to be making themselves felt should develop into enduring policies of municipal finance, it is clear that the taxpayer and bondholder whose funds finance state and local governments stand to be among the principal beneficiaries of the great depression.

## Success and Thrift are Ancient Allies

(CONTINUED FROM PAGE 631)

a life insurance salesman, standing among the leaders in his profession, asked his clients to record the things in life they feared most. Poverty led the list. Sickness, personal injury, damage to reputation, family loss, disappointment and disgrace were objects of fear, but none aroused such feelings of apprehension as poverty. These men saw the lurking shadow of the wolf in every dooryard. Each tossed in his sleep at night, fearful of what the morrow might bring forth in reduced income or loss of money invested.

A young man regularly employed at good wages and with slight prospects of unfavorable change said recently: "The sleep of a fugitive from justice is calm and peaceful as compared with mine. The dread of financial misfortune hangs over me like a cloud. It dogs my every footstep. My associates suffer from similar fears."

### A SENSE OF PROGRESS

THE new thrift movement has learned that there are peace of mind and relief from anxiety in the wise and prudent management of personal financial affairs. Thrift and economy are powerful aids in overcoming fear. Steady saving is one of the chief contributors to that "sense of progress" that psychologists tell us is an essential to contentment. A man feels better satisfied with his lot in life, no matter what it may be, if he is steadily accumulating the means to improve it. On the contrary, no man feels safe if he fears that his ability to hold his place is growing less. If he does not change his financial course, uneasiness may overcome him and make him less able to meet difficulty if it arises.

As a young lawyer, Calvin Coolidge suffered from serious money worries. He earned but \$500 in his first year of practice and his rent was \$200. Yet he found in strict economy and careful spending the means by which his fears could be overcome. "I know very well what it means to awake in the night and realize that the rent is coming due," he wrote, "wondering where the money is coming from with which to pay it. The only way I know of escape from that constant tragedy is to keep running expenses low enough so that something may be saved to meet the day when earnings may be small."

Albert Payson Terhune, successful American author, tells in his autobiog-

raphy how he found in saving welcome relief from sleepless nights of anxiety. When Terhune was a reporter on the New York Evening World, his wife was taken desperately ill, and there was no money for hospital expenses. Terhune sat at her bedside and wrote jokes at space rates to pay for her care. His wife recovered, but for months Terhune tossed in his sleep worrying over what would happen if a similar emergency arose. In desperation, he set aside five nights a week for work at home and resolved to save a little money. He says of the experience:

"At first it was torment to attack fresh toil at the jaded end of a nine-

hour work period, but bit by bit I got into my stride. I was working hard for the first time in my life, and I was saving money. Not much money, but enough to keep me from lying awake half the night in futile, sweatful guessing at what would happen to my wife and daughter in case I should be laid by for a few months. It was a great sensation, this unprecedented freedom from penury. Fifty times over it was worth the price in time and extra work which I was paying for it."

The leaders of the new thrift movement are inclined to reject the theory that a man can do better work if the fear of poverty is constantly before his

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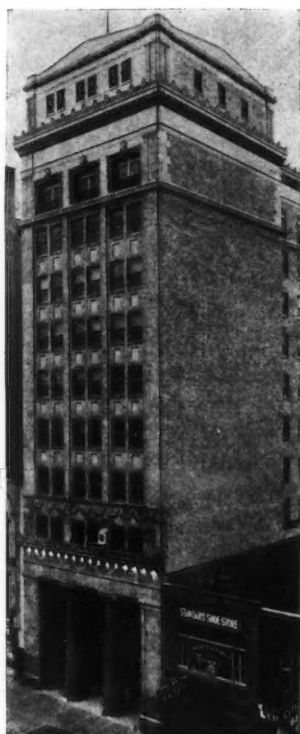
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mind. Leonardo da Vinci accomplished nothing worthwhile after changing tides of fortune drove him from one patron to another, and Rembrandt did his best work before the loss of his income brought creditors to his door. Charles M. Schwab, whose experience has included the handling of many thousands of men, some on very large and others on very small salaries, says good work is done only when the worker is in a happy and contented frame of mind. Oscar Wilde could write nothing, good or bad, after financial anxiety fastened its hold upon him.

By way of contrast, innumerable examples of successful work under the favorable skies of financial security are to be found. Washington Irving wrote at his best while attached to the American Embassy in Spain unhampered by financial cares. Joseph Hergesheimer took two years to prepare for writing, a period during which he enjoyed immunity from financial worry.

Contentment and peace of mind, the result of thrift, gave America one of its finest pieces of literature. Nathaniel Hawthorne held a modest post in the custom house at Boston. When political partisanship removed him from office, and he plodded home in discouragement, his wife greeted him at the door with enthusiasm. "Now you can write your book," she beamed. She had saved money over a period of years to enable him to devote his time to writing. For months, untroubled by financial cares, he kept at his work. The result was "The Scarlet Letter."

#### A NEW VALUATION

IN earlier days, thrift was usually pictured as bringing rewards to old gentlemen seated in rocking chairs. Its value in bringing mental peace to a young man on a salary with a wife and child to support was not appreciated. Basil King, in his "Conquest of Fear," says that of all worries those concerned with money matters are most persistent. Thrift helps to overcome them. It builds resistance against anxiety. It strengthens self-control. It stiffens the will.

The young and active leadership of the new thrift movement is fully aware of the wasteful results of hoarding. Women's clubs, veterans' organizations and others are organizing to drive it out of local community life. Hoarding does not banish fear. The miser's gold increases, rather than relieves, his anxiety.

Sometime ago an American woman toured Africa with a bag containing \$700,000 in bills tied to her wrist. She said she wanted the money where she could "feel it with her fingers." Far be-

yond the actual reach of poverty, she still feared it. When she returned home she hid the money in old vases in her hotel room and secreted great sums about her person. Yet she gained nothing by the physical presence of her wealth. It brought no mental peace. Her hoarding set her apart, a recluse, deprived of the calm and serenity to be found in the companionship of her friends. The wholesome employment of her funds in the channels of trade and investment might have been a blessing to her and to society. She voluntarily sacrificed these benefits because she failed to appreciate the value of Roosevelt's definition of thrift—"common sense applied to spending."

The present thrift movement differs from those that have preceded it in several important particulars. It is the first one in many generations that could be called world-wide in scope. Public opinion upon it in London, Paris, and in other parts of the world does not differ materially from that in New York. In all walks of life, in all branches of trade and commerce, emphasis is being placed upon wise and prudent expenditures.

The emphasis upon thrift as an important aid in the conquest of fear is new. It is a product of our recent studies in psychology. It is opening up an entirely new field for thrift propaganda.

In its general application, of course, the new thrift does not differ from the old. Its importance in personal achievement has been emphasized by the wise and successful men of all generations. Perhaps it is in the nature of a discovery to learn that the old rules still hold in this modern age.

#### NEW BOOKS

"MAKING Farms Pay" (Macmillan) is a narrative of personal experiences in managing 1,000 farms, and a description of the modern business of group farm management. The author, Cornelius J. Claassen, gives workable suggestions for absentee owners of farm property, for bankers, life insurance companies and other institutions with capital so invested.

"BUILDING and Loan Annals, 1931", published by the U. S. Building and Loan League, Chicago, is a well indexed source book of current building and loan practice. It includes the papers and proceedings of the annual convention and of the International Congress, the report of the secretary-treasurer giving reliable statistics on the field, the revised constitution, and a complete directory of the building and loan associations in the United States.

## The Case for the Country Banks

(CONTINUED FROM PAGE 651)

spective of their quality, in order to conserve cash reserves. At the same time the large city bank may have vaults fairly bursting with money seeking employment and may be entirely out of debt to the Federal Reserve bank. Meanwhile, newspapers and magazines publish stories, as at present, of the idle money lying in banks and seeking use; speakers at all sorts of meetings emphasize that fact; and manufacturers and distributors urge people to spend their money.

In the light of this information the dweller in the smaller city, desiring financial accommodation, wonders why his own bank is so zealously guarding its money, and why its occasional statement shows a decline in deposits. He could not be expected to know the real situation, the contrast in condition and the causes therefor, between the metropolitan bank and his own. Eventually he may decide that his own institution, because of having no money to lend, lacks liquidity or even solvency. Of that belief many broken banks tell the story.

From what source then, can come the money necessary for withdrawals and for loans? Naturally through rediscounts at the reserve bank, if the local banks possess eligible paper. The statement has been made that country banks do not possess eligible paper in sufficient amount, and in recent years the tendency of bank assets is toward loans and investments that are not eligible for rediscount at the Federal Reserve banks. Between January 30, 1925 and January 30, 1931 the loans on securities in member banks increased 27.5 per cent, investments 36.6 per cent, and "all other loans," from among which are drawn those eligible for rediscount, have declined 5 per cent.

### BELOW 1926

THIS statement, being general, does not tell the story of the country banks. In 1929 the combined holdings of both Government securities and eligible paper held by the country banks was 9.4 per cent below that of 1926, and in 1931 it was 27.4 per cent below that of 1926, while in the banks of the reserve cities these combined holdings were in 1929 4.5 per cent above 1926, and in 1931, 14 per cent above 1926. Since some country banks are well supplied with both Government securities and eligible paper, it follows in the light of this statistical showing that other

banks are practically destitute of it.

This belief is borne out by the report of the Senate Committee on the Reconstruction Finance Corporation Bill, which stated that some institutions, members of the Federal Reserve system, "have no paper eligible for discount in the Federal Reserve." It will be recalled that at this time there are 63 reserve cities and a city to be so designated must have a population of at least 50,000 with banks having an aggregate capital and surplus of not less than \$10,000,000 and the endorsement of an application by at least 50 national banks located outside the applying city.



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To supplement the foregoing information relative to Government securities and eligible paper held by banks, a little lesson in arithmetic might be illuminating. A study of the accompanying charts showing investments of the banks of reserve cities and those of the member country banks indicates that the volumes of investments in these two types of institutions in 1929 were almost identical. How different was and is the investment picture!

On June 29, 1929, member banks in reserve cities had total loans and investments of \$13,832,000,000. The country banks had loans and investments of

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a total of \$13,719,000,000. The volume of loans alone was greater by \$1,100,000,000 in the banks of the reserve cities than in the country banks. The banks of the reserve cities had purchased acceptances and commercial paper of \$130,000,000 while the country banks had a volume of \$180,000,000. United States Government securities were held by the banks of the reserve cities in the amount of \$1,765,000,000. The country banks owned about \$300,000,000 less of Government securities and about \$1,400,000,000 more of other securities than the amount held by the banks of the reserve cities.

One year later, June 30, 1930, the total loans and investments had changed but little in so far as the banks in the reserve cities were concerned, and had decreased about \$550,000,000 in the country banks. The purchased acceptances and commercial paper held by the reserve city banks had increased to \$357,000,000 while purchased acceptances in the country banks had decreased

to \$12,000,000 and commercial paper had advanced to \$171,000,000, a total of \$183,000,000 or about half of that of the reserve city banks. These banks also held Government securities in the amount of \$1,686,000,000, and other securities in the amount of about \$2,000,000,000, while country banks had Government securities of about \$1,229,000,000 and other securities of \$3,326,000,000.

### COMPARISON

BY June 30, 1931 the total of loans and investments in banks of the reserve cities was only \$300,000,000 less than two years preceding, but \$1,500,000,000 more than the total loans and investments in country banks. Acceptances and commercial paper of the banks in the reserve cities stood at \$346,000,000 while in the country banks the purchased acceptances had declined to \$4,000,000 and commercial paper to \$101,000,000. The reserve city banks held Government securities in the amount of \$2,407,000,000, an advance of more than \$700,000,000, and other securities were less, amounting to but \$2,342,000,000, an advance of more than \$496,000,000. The country banks owned \$1,278,000,000 of United States securities, but other securities of \$3,281,000,000.

While the other securities of the reserve cities had risen from \$1,846,000,000 as of June 30, 1929, to \$2,342,000,000 on June 30, 1931, an increase of \$496,000,000, the country banks had gone from \$3,240,000,000 on June 30, 1929 to \$3,281,000,000 on June 30, 1931, an advance of only \$41,000,000. In

short, during these two years the member banks of the reserve cities had been able to increase their purchased acceptances and commercial paper by 166.2 per cent, and had increased their holdings of U. S. Government securities by 36.4 per cent, and their other securities by 26.9 per cent. The country banks had a decreased volume of purchased acceptances and commercial paper, a decreased volume of U. S. Government securities, and a slight increase in other securities.

### CONTRAST

IN other words, the reserve city banks had increased their other securities after the bond prices had declined and thus were able to take advantage of the depressed prices in their purchases, while the volume of other securities held by the country banks had showed slight change, indicating that the securities which they bought during the boom period at highest prices were still in their portfolios. During the past two years there has been a drastic decline in bond prices, which in the case of smaller country banks might serve to wipe out or impair the surplus and even affect the capital. The ability of the member banks of the reserve cities to safeguard their position and to increase their liquidity through purchase of an additional volume of acceptances, commercial paper, and U. S. Government securities during the present depression, and at the same time to take advantage of the low bond prices to increase their other security holdings, is explained by the movement of bank deposits during this period.

There are those who say that eventually the country banks will hold eligible paper in larger volume. The wish may be father of the thought. For the earliest time that figures of eligible paper are available, in 1926, the country banks held eligible paper in the amount of \$2,100,000,000 as compared with \$2,825,000,000 held by reserve city banks. Since then it has decreased in reserve city banks by \$955,000,000, and in country banks by \$772,000,000. Not a hopeful sign for a peaceful and rapid penetration of the country.

### NEXT MONTH

(EDITOR'S NOTE: Next month Mr. Albig will continue his discussion of the problems of the country bank in an article dealing specifically with operating profits, the greatly changed conditions in industry and agriculture during the past two years, and the dilution of the banking business by so-called financial institutions.)

## Personnel and Relations with the Banking Public

(CONTINUED FROM PAGE 640)

loans and unprofitable investments.

These are not assertions of opinion. They are mathematically demonstrable. For instance, one city bank with a total of 600 officers and employees by a well-developed personnel program saves \$50,000 a year—computed on an unemotional adding machine—on its payroll for female clerks. Yet the clerks are paid more money than they can get at any other bank in town. In fact, the effectiveness of the plan depends on hiring girls so young that they cannot easily get jobs, training them to competent clerks in a very short time, and thus being able to pay them more than they could earn elsewhere and at the same time pay less than the other banks have to pay for equally skilled clerks who are older.

A large bank in another city uses a savings-and-pension plan so devised that employees cannot afford to quit after they have been on the payroll a few years, since the penalty would be excessive. The bank's officers are kindly men, and because the same penalty would run against a discharged employee, they retain many employees who by any merit rating deserve to be fired. Moreover, salaries are increased for length of service, which makes an incompetent, elderly clerk draw more money than—often twice as much money as—it would take to replace him with a far more desirable employee. It has been estimated by competent bankers that this one weakness in this bank's personnel program is costing it close to \$300,000 a year.

### ALL FROM THE RANKS

STILL another bank is noted for its extraordinarily high caliber of male employees, a condition which has persisted there for many years and has produced a notable corps of officers, all but one of them promoted from the ranks. This bank's male clerical payroll is about 40 per cent below what most banks of the same size pay for doing the same work in cities of equivalent size—nor does the bank underpay its men.

These seemingly contradictory results come from an enlightened personnel policy which makes the bank an extraordinarily good place to work. The men gladly work so hard that it takes comparatively few of them to turn out the

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bank's large volume of production. They are promoted so steadily because the bank trains them intensively, and many a youngster of 23 here fills admirably a job which in most institutions demands a man of 30. The youngster draws a better salary than he could get anywhere else where the future is equally promising. At the same time, the bank fills the position for two-thirds the salary that is standard for the same job in banks which have not yet learned how to train so young a man to handle so responsible a task.

Large banks come first to mind as examples because the savings they attain from sound personnel programs—and the losses they suffer for lack of such programs—are more spectacular in number of dollars. But small banks can make the same types of economies, are suffering the same types of loss. Often the attainable savings in the small bank are proportionately greater than in its metropolitan correspondent.

All of this leads straight back to the statement already made here, that the wastes in banks arising from faulty handling of personnel problems are—even in this year of more or less grace—the source of losses only second in size to those arising from poor loans and depreciation in investment accounts.

What is a personnel program for a bank? The easiest way to define it is to enumerate the major steps of such a program. It must be kept in mind, however, that just because a bank goes through some motions which it calls by the name of one of these steps, this does not necessarily mean that it is perform-



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ing the operation well. The profitable, money-making personnel program involves all of these steps, with no single step slighted and all of them so inter-related that they form a well-balanced and homogeneous policy. Here is the list:

Selecting the employee. Fitting him to the job. Training him on the job. Keeping track of his progress. Promoting and transferring him. Firing him when profitable. Watching his health. Assuring his financial security. Building *esprit de corps*.

To the banker who has not thought deeply on the whole subject, it may seem that many of these are non-essential. It is obvious that a personnel department must select, train, and fire—or else supervise these activities. Some of the others, such as building *esprit de corps*, may look like frills. Actually, they are not. They are necessary to make the whole program profitable.

# *says the* **JOURNAL**

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## **AMERICAN BANKERS** *Association* **JOURNAL**

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New York

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## This Month's Contributors

**W.** ESPEY ALBIG is Deputy Manager of the American Bankers Association and Secretary of the Savings Division. He states the case rather plainly for country banks as regards deposit trends and holdings of eligible paper.

GEORGE E. ANDERSON gives another discussion of current legislation in Washington where he lives and keeps in touch with Congressional happenings.

WALTER R. BIMSON is assistant vice-president of the Harris Trust and Savings Bank of Chicago. He argues for sound personnel programs.

MORRIS EDWARDS is a frequent contributor and is in the finance department of the U. S. Chamber of Commerce. He shows how the majority of American cities are solving their municipal finance problems.

R. S. HECHT is chairman of the Economic Policy Commission of the Association, and down South in New Orleans he is president of the Hibernia Bank and Trust Company and chairman of the advisory committee for Louisiana and Mississippi of the Reconstruction Finance Corporation.

ALLAN HERRICK, formerly of Denver and now advertising manager of the Security-First National Bank, Los Angeles, is an old-time contributor.

WILLARD M. KIPLINGER makes it his business to know what is going on in Washington and how and why. Anyone who reads the first paragraph of "The Reconstruction Workshop" will finish the article.

HERBERT MANCHESTER describes the part that banks have played in the growth of Detroit. Next month he will write on New Orleans.

THOMAS B. PATON reviews the 16 deposit guaranty bills now before Congress, showing that the idea still persists despite past attempts. He is General Counsel of the Association.

EDMUND PLATT, formerly vice-governor of the Federal Reserve Board, is vice-president of Marine Midland Corporation. Having served also as a Congressman and chairman of the committee on banking and currency of the 66th Congress, he is well qualified to discuss the Glass-Steagall Act and the Federal Reserve's new power.

GILBERT T. STEPHENSON is vice-president of the Equitable Trust

Company, Wilmington, Del. His article introduces a series of studies on how trust institutions can help industries.

DAN V. STEPHENS, president of the Stephens National Bank, Fremont, Nebraska, gives proof of the pudding on regional clearinghouse operations. He has been identified with this movement from the beginning.

MELVIN A. TRAYLOR is president of the First National Bank of Chicago, and former President of the American Bankers Association. His banking and business leadership are national assets. His article, "And Now We Must Face Facts about Taxes—The Joyride of the Last Decade Is Over".

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# How Many Can You Answer?

## These questions were taken verbatim from the examination requirements of the American Institute of Banking

1. Name in order of importance the four fundamental characteristics which should govern the investor in selecting a well balanced investment. Discuss each briefly.
2. (a) Why is it highly important that all principal items in a trust account be kept wholly distinct and separate from income accounting?  
(b) Define and explain the following terms: (1) amortization, (2) premium, (3) discount.
3. A had his appendix removed. The doctor sent him a bill for \$1,000. A considered the amount exorbitant and sent the doctor a check for \$250, marking on it "In full settlement for appendix operation." The doctor cashed the check and immediately sued for the remaining \$750. What are his rights?
4. The X Bank held the note of King for \$15,000, on which there was \$500 overdue interest. Blaine, by agreement with King and the X Bank, gave his note to the X Bank for \$500 in payment of the overdue interest, and the bank credited this amount upon King's note. Later Blaine failed to pay, and the X Bank sued. Blaine's defense was that he had received no consideration. Can the X Bank recover from Blaine? Give reasons.
5. (a) Discuss the business cycle.  
(b) How can the banker contribute to the elimination of the business cycle?
6. Illustrate how an importer who has no credit with the bank or with the exporter can settle for his purchases without paying in advance.
7. Is there any real difference between a bank's discounting single name paper for a client and buying commercial paper from a broker? Explain clearly the difference if any.
8. (a) What is a mortgage?  
(b) Explain fully the difference between a closed and an open-end mortgage. Show how and when each is used.
9. John Brown drew a note as follows:  
\$500.00                      January 2, 1930.  
On or before one year from date, I promise to pay to John Smith, or order, Five Hundred Dollars, with interest at six per cent per annum.  
John Brown  
  
This note was purchased before maturity by the First National Bank at Bay City. Before paying for it, the cashier of the bank learned that it had been procured by the payee from the maker by fraud. Is the bank a holder in due course? Reason.
10. (a) The savings of the United States amount to about \$5,000,000,000 annually. In what ways is this capital saved?  
(b) Distinguish carefully "circulating" and "fixed" capital. Which is the more largely responsible for large scale enterprise?
11. How is an importation of goods financed through an import letter of credit?
12. A customer recommends to you the name of a concern desiring credit, and it seems an opportunity of acquiring a new account.
13. Name the principal defaults which may occur in the case of the usual corporate mortgage to secure a bond issue.
14. The owner of stock, knowing that an attachment will be issued against it, pledges it with a bank that knows nothing of the impending attachment, which is, in fact, levied two days after the pledge is made. The attaching creditor claims that his rights are superior to those of the pledgee bank. Is this contention correct? Give reasons.
15. A note made by M to the order of P is indorsed P, X, Y. Y presents it for payment on its due date and payment is refused. Y does nothing. X learns of the dishonor through the bank where the note was made payable and, on the day after the note was due, sends a notice of the dishonor to P. Y sues P, and P sets up the defense that Y never gave P notice of the dishonor of the note. What result?
16. Give the four conditions upon which the productiveness of capital depends and explain in detail.
17. Discuss the *advantages* and *disadvantages* of commercial paper sold in the open market,  
(a) from the standpoint of the borrower;  
(b) from the standpoint of the bank.
18. Explain the difference between a living trust and a testamentary trust. Prepare an outline for a living trust agreement.
19. (a) What laws govern the distribution of the personal estate of a decedent?  
(b) What laws govern the distribution of the real estate?

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The first set of these questions appeared in the March issue of the JOURNAL. More will follow in the May number.

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